KNYSNA Municipality Munisipaliteit uMasipala

Annexure 5

Policies

2017/2018

Medium Term Revenue and Expenditure Framework (MTREF)

KNYSNA MUNICIPALITY

KNYSNA
Municipality Munisipaliteit uMasipala

DRAFT BUDGET POLICY

Effective date: 1 July 2017

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1. DEFINITIONS

"Accounting Officer" *means a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act; and also refers to the municipal manager of a municipality in terms of section 60 of the MFMA;*

*"**Allocation**" means*

- *(a) a municipality's share of the local government's equitable share referred to in section 214(l) (a) of the Constitution;*
- *(b) an allocation of money to the municipality in terms of section 214(1) (c) of the Constitution;*
- *(c) an allocation of money to the municipality in terms of a provincial budget; or*
- *(d) any other allocation of money to the municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction;*

*"**Annual Division of Revenue Act"** means the Act of Parliament, which must be enacted annually in terms of section 214 (1) of the Constitution;*

***"Approved budget**," means an annual budget*

- *(a) approved by a municipal council in terms of section 24 of the MFMA, or*
- *(b) includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;*

*"**Basic Municipal Service**" means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment;*

*"**Budget-related Policy**" means a policy of the municipality affecting or affected by the annual budget of the municipality, including:*

- *(a) the tariffs policy, which the municipality must adopt in terms of section 74 of the Municipal Systems Act;*
- *(b) the rates policy which the municipality must adopt in terms of section 3 of the municipal property rates Act;*
- *(c) the credit control and debt collection policy, which the municipality must adopt in terms of section 96 of the Municipal Systems Act;*
- *(d) the cash management and investment policy which the municipality must adopt in terms of section 13(2) of the Act;*
- *(e) a borrowing policy which must comply with Chapter 6 of the Act;*
- *(f) a funding and reserves policy;*

(g) a policy related to the long-term financial plan;

(h) the supply chain management policy which the municipality is required ~~o~~to adopt in terms of section 111 of the Act;

(i) any policies dealing with the management and disposal of assets;

(j) any policies dealing with infrastructure investment and capital projects, including –

(i) the policy governing the planning and approval of capital projects; and

(ii) the policy on developer contributions for property developments;

(k) the indigents policy of the municipality;

(l) any policies related to the provision of free basic services;

(m) any policies related to budget implementation and monitoring including –

(i) a policy dealing with the shifting of funds within votes;

(ii) a policy dealing with unforeseen and unavoidable expenditure; and

(iii) policies dealing with management and oversight;

(n) any policies related to the managing electricity and water including –

(i) a policy related to the management of losses; and

(ii) a policy to promote conservation and efficiency;

(o) any polices related to personnel including polices on overtime, vacancies and temporary staff;

(p) any policies dealing with municipal entities, including –

(i) the service delivery agreement; and

(ii) the dividend preference of the municipality; and

(q) ~~any~~Any other budget-related or financial management policies of the municipality.

*"**Budget transfer**" means the transfer of an approved budget allocation from one operating or capital line item to another within a vote, with the approval of the relevant senior manager;*

*"**Budget Year**" means the financial year of the municipality for which an annual budget is to be approved in terms of section 16(1) of the MFMA;*

*"**Capital Budget**" means the approved budget for capital items in a given fiscal period. Capital items are assets with a life expectancy of more than one financial year such as property, plant and equipment. The cost of which is normally written off over a number of fiscal periods;*

*"**Chief Financial Officer**" means a person designated in terms of section 80(2) (a) of the MFMA;*

*"**Council**" means the municipal council of this municipality referred to in section 18 of the Municipal Structures Act;*

*"**Councillor**" means a member of council;*

***"Creditor"**, means a person to whom money is owed by the municipality;*

*"**Current year"** means the financial year, which has already commenced, but not yet ended;*

***"Delegation**" means the power to perform a function or duty which is given to office bearer, councillor or staff members either in terms of Sect 59 of the MSA or Sect 79 of the MFMA;*

*"**Executive Mayor"** means the councillor elected as the executive mayor of the municipality in terms of section 55 of the Municipal Structures Act;*

*"**Generally recognised accounting practice (GRAP)**" means an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standards Board;*

*"**Financial recovery plan"** means a plan prepared in terms of section 141 of the MFMA;*

*"**Financial statements**", means statements consisting of at least –*

- *(a) statement of financial position;*
- *(b) a statement of financial performance;*
- *(c) a cash-flow statement;*
- *(d) any other statements that may be prescribed; and*
- *(e) any notes to these statements;*

***"Financial year"** means a twelve months period commencing on 1st July and ending on 30th June each year;*

*"**Financing agreement**" includes any loan agreement, lease, and instalment purchase contract or hire purchase arrangement under which the municipality undertakes to repay a long-term debt over a period of time;*

*"**Fruitless and wasteful expenditure"** means expenditure that was made in vain and would have been avoided had reasonable care been exercised;*

***"Investment**" in relation to funds of the municipality, means –*

- *(a) the placing on deposit of funds of the municipality with a financial institution; or*
- *(b) the acquisition of assets with funds of the municipality not immediately required, with the primary aim of preserving those funds;*

*"**Irregular expenditure"** means –*

(a) *expenditure incurred by the municipality or municipal entity in contravention of, or that is not in Accordance with, a requirement of the MFMA Act, and which has not been condoned in terms of section 170 of the MFMA;*

(b) *expenditure incurred by the municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;*

(c) *expenditure incurred by the municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or*

(d) *expenditure incurred by the municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by the municipality which falls within the definition of "unauthorised expenditure";*

"Lender" *means a person who provides debt finance to the municipality;*

*"**Local community**" has the meaning assigned to it in section 1 of the Municipal Systems Act;*

*"**Long-term debt"** means debt repayable over a period exceeding one year;*

*"**mSCOA**" means the municipal standard chart of accounts;*

*"**Municipal council**" or "council" means the council of the municipality referred to in section 18 of the Municipal Structures Act;*

***"Municipal debt instrument**" means any note, bond, debenture or other evidence of indebtedness issued by the municipality, including dematerialised or electronic evidence of indebtedness intended to be used in trade;*

*"**Municipal entity**" has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);*

*"**Municipality**" means –*

(a) *when referred to as a corporate body, means the municipality as described in section 2 of the Municipal Systems Act; or*

(b) *when referred to as a geographic area, means the municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);*

*"**Municipal service**" has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);*

*"**Municipal Structures Act"** means the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);*

***"Municipal Systems Act**" means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);*

*"**Municipal tariff**" means a tariff for services which the municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff;*

***"Municipal tax"** means property rates or other taxes, levies or duties that the municipality may impose;*

***"National Treasury"** means the National Treasury established by section 5 of the Public Finance Management Act;*

***"Official"** means –*

(a) an employee of the municipality or municipal entity;

(b) a person seconded to the municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or

(c) a person contracted by the municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;

*"**Overspending"***

(a) means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;

(b) ~~in~~In relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or

(c) in relation to expenditure under section 26 of the MFMA, means causing expenditure under that section to exceed the limits allowed in subsection (5) of this section;

*"**Past financial year**" means the financial year preceding the current year;*

***"Quarter"** means any of the following periods in a financial year –*

(a) 1 July to 30 September refer to as the 1st quarter;

(b) 1 October to 31 December refer to as the 2nd quarter;

(c) 1 January to 31 March refer to as the 3rd quarter; or

(d) 1 April to 30 June refer to as the 4th quarter;

***"Ring Fenced"** means an exclusive combination of line items grouped for specific purposes for instance salaries and wages.;*

*"**Service delivery and budget implementation plan"** means a detailed plan approved by the executive mayor of the municipality, in terms of section 53(l) (c) (ii) of the MFMA, for implementing the municipality's delivery of municipal services and which indicate –*

(a) projections for each month of:

(i) revenue to be collected, by source; and

(ii) operational and capital expenditure, by vote;

(b) service delivery targets and performance indicators for each quarter; and

(c) any other matters that may be prescribed, and includes any revisions of such plan by the executive mayor in terms of section 54(l) (c) of the MFMA;

***"Short-term debt"** means debt repayable over a period not exceeding one year;*

*"**Unauthorised expenditure",** means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA, and includes –*

(a) overspending of the total amount appropriated in the municipality's approved budget;

(b) overspending of the total amount appropriated for a vote in the approved budget;

(c) expenditure from a vote unrelated to the department or functional area covered by the vote;

(d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;

(e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or

(f) a grant by the municipality otherwise than in accordance with the MFMA;

***"Virement"** means the process of transferring an approved budget allocation from one vote to another, with the approval of the Municipal Manager. To enable senior managers to amend budgets in the light of experience or to reflect anticipated changes;*

***''Vote''** means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different departments or functional areas of the municipality; and which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.*

***''Vote holder''** means the director and/or senior manager to which the vote is assigned.*

2. ABBREVIATIONS

CFO – Chief Financial Officer

CM – Council Minute

IDP – Integrated Development Plan

MFMA – Municipal Finance Management Act, Act No. 56 of 2003

MSA – Municipal Systems Act, Act No.32 of 2000

MTREF – Medium Term Revenue and Expenditure Framework

3. INTRODUCTION

In terms of the Municipal Finance Management Act, No. 56 of 2003, Chapter 4 on Municipal Budgets, the Council of a municipality must for each financial year approve an annual budget for the municipality before the commencement of that financial year. According to Section 16(2) of the MFMA the executive mayor of the municipality must table the annual budget at a Council meeting at least 90 days before the start of the budget year.

This policy must be read, interpreted, implemented and understood against this legislative background. The budget plays a critical role in an attempt to realise diverse community needs. Central to this is the formulation of a municipal budget that must take into account the government's macro-economic and fiscal policy fundamentals.

It is imperative that the budget process is as consultative and inclusive as possible.

National Treasury issued Government Gazette No 37577, Municipal Regulations on Standard Chart of Accounts, which is effective 01 July 2017. Application of Regulations is to all municipalities and municipal entities. No exemption or transitional provisions from the Regulation for the application of mSCOA to municipalities or municipal entities is allowed. Knysna Municipality is a pilot site for mSCOA and due to pilot status, the municipality must be complaint with these regulations by 1 July 2016.

4. OBJECTIVES

The objectives of this budget policy is to set out a framework to deal with –

(a) The preparation of the MTREF budget;

(b) The shifting or virement of funds and budget allocations;

(c) The introduction of any adjustment budgets;

(d) Unforeseen and unavoidable expenditure;

(e) Irregular expenditure;

(f) Fruitless and wasteful expenditure; and

(g) To establish and maintain procedures to ensure adherence to the Municipality's IDP review and budget processes.

The objective of the mSCOA regulations is to:

Provide a National Standard for uniform recording and classification of municipal budget and financial information at a transactional level by providing a Standardised Chart of Accounts: - aligned to budget formats and accounting standards; - enable uniform information sets across the whole of government to better inform national policy coordination and reporting, benchmarking and performance measurement.

5. BUDGETING PRINCIPLES

5.1 The Municipality ***shall not budget for*** *a cash deficit and should ensure that revenue projections in the budget are realistic taking into account actual collection levels.*[1]

5.2 Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each vote in the approved budget.

5.3 The Municipality shall prepare a three-year budget (MTREF budget) and Council shall approve said budget.

5.4 The MTREF budget must at all times be within the framework of the approved Municipal Integrated Development Plan.

5.5 Capital budget:

5.5.1 Only expenditure that meets the definition of a capital budget as per section 1 of this policy shall be included in the capital budget.

5.5.2 The capital budget shall distinguish between replacement and new assets.

5.5.3 The envisaged sources of funding for the capital budget must be properly considered. Council must be satisfied that this funding is available and has not been committed for other purposes.

5.5.4 Before approving a capital project, Council ***must*** *consider:*

(a) the projected cost of the project over all the ensuing financial years until the project becomes operational; and

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[1]*Refer to the approved Funding and Reserves Policy*

(b) ~~future~~Future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on the operating budget.

5.5.5 Before approving the capital budget, the Council **shall** consider:

(a) the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans;

(b) depreciation of fixed assets;

(c) maintenance of fixed assets, and

(d) ~~any~~Any other ordinary operational expenses associated with any item on such capital budget.

5.5.6 **The capital expenditure shall be funded from the following sources**:

(a) Revenue or Surplus (Cash Resources)

Any financing activity from this source must be included in the cash budget to raise sufficient cash for the expenditure. In order for the commencement of expenditure on an item financed from this source the full amount of physical cash must be ring fenced or set aside from normal operating funds.

(b) New borrowings (External loans)

External loans can only be raised if they are linked to the financing of an asset. A capital item to be financed from an external loan can only be included in the budget if the loan has been secured or if it can reasonably be assumed as being secured. The loan redemption period should not exceed the estimated life span of the asset. Interest payable on external loans shall be included as a cost in the operating budget. Finance charges relating to such loans shall be charged to or apportioned only between the departments or votes to which the projects relate.

(c) Capital Replacement Reserve (CRR)

Council shall establish a CRR for the purpose of financing capital projects and the acquisition of assets. The following sources of funds may be used to establish this reserve:

- unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- interest on the investments of the CRR, appropriated in terms of the investments policy;
- additional amounts appropriated as contributions in each annual or adjustments budget;
- interest earned on investments of unutilised grants;
- VAT claimed back on grants and subsidies; and
- ~~proceeds~~Proceeds from the sale of assets.

Before any asset can be financed from the CRR the physical cash must be available within the reserve.

(d) Transfer and Grants / Public Donations and Contributions

Non capital expenditure funded from grants must be budgeted for as part of the revenue budget.

- *Expenditure must be reimbursed from the funding creditor and recognised in the operating budget as transfers recognised – operational and must be budgeted for as such.*

Capital expenditure must be budgeted for in the capital budget.

- *Expenditure must be reimbursed from the funding creditor and recognised in the operating budget as transfers recognised – capital and must be budgeted for as such.*
- *Budgeted grant funding does not need to be cash backed but cash should be secured before spending can take place.*

All unutilized grants received must be ring fenced and cash backed from available cash/cash equivalents and/or investments.

5.6 Operational budget:

The Municipality shall budget in each annual and adjustments budget for the contribution to[2]:

(a) provision for accrued leave entitlements equal to 100% of the accrued leave;

(b) continued employee benefits as at 30 June of each financial year;

(c) provision for the impairment of debtors taking into account prior year, current year improvements and future improvement in debt collection percentages;

(d) provision for the obsolescence and deterioration of stock in accordance with its stores management policy;

(e) Depreciation and finance charges shall be charged to or apportioned only between the departments or votes to which the projects relate;

(f) A percentage of the operating budget component of each annual and adjustments budget shall be set aside for maintenance as determined in the Funding and Reserves Policy.

When considering the draft annual budget, Council shall consider the impact, which the proposed increases in rates and service tariffs will have on the municipal accounts of households.

The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.

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[2] *See approved Funding and Reserves Policy where applicable*

The operating budget shall reflect the impact of the capital component on:

- *Depreciation charges;*
- *Repairs and maintenance expenses;*
- *Interest payable on external borrowings; and*
- *~~other~~Other operating expenses.*
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The Chief Financial Officer shall ensure that the cost of indigent relief is separately reflected in the appropriate votes as income foregone and/or as per MFMA Circular requirements issued by National Treasury from time-to-time.

5.7 mSCOA Budget:

Comprises seven (7) segments that are to be complied with on a transaction (posting) level. No further breakdown is required subsequent to transaction posting.

5.7.1 Project Segment

- *The project segment is linked to the IDP of the municipality. Due to the IDP being a 5 year plan, the need for a project segment was identified*

- *The accumulation of project-related transactions in a single posting-level account results in a classification not relating to "what is bought".*

- *The Project Segment distinguishes projects according to the nature of the expense whether it is capital or an operational expense.*

5.7.2 Function Segment

- *The Function Segment is the location within the SCOA for creating the "vote" structure standardised for all municipalities*
- *This does not replicate the current vote structure, but indicate what function is being performed*

5.7.3 Municipal Standard Classification

- *Non Standardised segment. "Against which organisational vote or sub-vote should the transaction be recorded"?*
- *This segment contains the "votes" set-up by the municipality based on the organisational structure in place for the municipality. The "vote" structure needs to be aligned to the municipality's organisational structure.*
- *Municipal revenue, operating and capital expenditure are then classified in terms of each of these votes. This means it is possible to present the operating surplus or deficit for each vote, along with information on the proposed capital budget. If a municipality delivers services within a particular vote structure these tables enable, useful performance information based on the vote structure*

5.7.4 Item Segment

- *The item segment relates to elements stemming from the Statement of Financial Performance and the Statement of Financial Position.*
- *For mSCOA purposes these comprise of 4 sub-categories i.e. Revenue, Expenditure; Gains and Losses and Assets, Liabilities and Net Assets.*

5.7.5 Funding Segment

- *The funding segment is applies to the different sources of ~~fiunding~~funding relevant to the varying transaction types.*
- *It is broken into 6 sub-categories*
    - *Revenue*
    - *Commercial Services*
    - *Transfers and Subsidies*
    - *Borrowing*
    - *Cash Backed Reserves*
    - *Non-funding Transactions*

5.7.6 Regional indicator

- *The regional indicator is location driven.*

- *This is broken into 3 sub-categories:*
    - *Administrative or Head Office (incl. Satellite Offices)*
    - *Wards (specific to municipality)*
    - *Whole of the municipality*

5.7.7Costing Segment

- *The Costing segment provides for the classification of indirect (secondary) costs that do not directly attribute to the output and are sometimes referred to as activity based recoveries, for example labour, vehicle, plant and equipment, internal service charges (internal billings), and departmental charges for example office rental, audit fees and procurement.*
- *Indirect cost (secondary cost) is initially recorded as primary cost within the "Item "segment and funded according to the indicator selected in the "Fund" segment. The costing indicator within the "costing" Segment provides for the re-distribution of these primary costs between functions (no change in the funding source), together with indicators provided in the "Cost" segment. The "Project" segment provides the classification link to these indicators and specific projects.*
- *The purpose for including this segment in SCOA is to provide for the recording of full cost reflection for at least the four core municipal functions being electricity, water, waste water and waste management services, as a minimum requirement (for now).*

6. BUDGET PREPARATION PROCESS

6.1 Formulation of the budget

The Accounting Officer with the assistance of the Chief Financial Officer, Manager (Budget) and the Manager (IDP) shall prepare a draft IDP & Budget process plan with timetables for the municipality including municipal entities for the ensuing financial year.

The Executive Mayor shall table the IDP& Budget process plan to Council not later than 31 August of each year for approval.

The IDP and Budget process plan shall indicate the key deadlines for the review of the IDP as well as the preparation of the MTREF budget. Such target dates shall follow the prescriptions of the Municipal Finance Management Act, Municipal Budget and Reporting regulations, the District Municipality IDP Framework as well as the guidelines set by National Treasury.

The Executive Mayor shall convene a strategic workshop in September/October with the mayoral committee and senior managers in order to determine the IDP & Budget priorities which will form the basis for the preparation of the MTREF budget taking into account the financial and political pressures facing the municipality.

The Executive Mayor shall table the draft IDP and MTREF budget to Council by 31 March of each year together with the draft resolutions and budget related policies.

The Chief Financial Officer and senior managers undertake the technical preparation of the budget. The budget must be in the format prescribed by the MFMA: Municipal Budget and Reporting Regulations.

The budget must contain the information related to the two financial years following the financial year to which the budget relates, as well as the estimated figures for the current year and the three prior year actual outcomes.

6.2 Public participation process

Immediately after the draft annual budget has been tabled, the Municipality must convene public meetings on the draft budget and invite the public, stakeholder organisations, to make representation at these meetings and to submit comments in response to the draft budget.

6.3 Approval of the budget

Council shall consider the Annual Budget for approval not later than 31 May for the ensuing financial year. The Council resolution, must contain the budget policies and performance measures to be adopted.

Should the Council fail to approve the budget before the start of the budget year, the Executive Mayor must inform the MEC for Finance that the budget has not been approved.

The budget tabled to Council for approval shall include the following supporting documents as required by the MFMA:

(a) draft resolutions approving the budget;

(b) levying property rates, other taxes and tariffs for the financial year concerned;

(c) measurable performance objectives for each budget vote, taking into account the municipality's IDP;

(d) the projected cash flows for the financial year by revenue sources and expenditure votes;

(e) any proposed amendments to the IDP;

(f) any proposed amendments to the budget-related policies;

(g) the cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other councillors, the Accounting Officer, the Chief Financial Officer, and other senior managers;

(h) particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organisations such as Non-Governmental Organisations, welfare institutions and so on;

(i) particulars of the municipality's investments; and

(j) *various information in regard to municipal entities under the shared or sole control of the municipality*

6.4 Publication of the budget

6.4.1 Within 10 working days after the draft annual budget has been tabled, the Accounting Officer must ensure that the draft budget and other budget-related documentation are posted onto the municipal website so that it is accessible to the public.

6.4.2 The Chief Financial Officer must within 10 working days after the draft annual budget is tabled:

(a) *submit the tabled draft budget in both printed and electronic formats to the National Treasury, the Provincial Treasury as well as post it on the municipal website; and*

(b) ~~*ensure*~~*Ensure that a newspaper advertisement is placed that the draft budget is available at the Municipal offices and available for comments.*

6.4.3 Once Council has approved the budget the Chief Financial Officer must within 10 working days:

(a) *submit the approved budget in both printed and electronic formats to the National Treasury, the Provincial Treasury as well as post it on the municipal website; and*

6.5 Service Delivery and Budget Implementation Plan (SDBIP)

The Executive Mayor must approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the Budget by Council.

The SDBIP shall include the following components:

(a) *Monthly projections of revenue to be collected for each source;*

(b) *Monthly projections of expenditure (operating and capital) and revenue for each vote;*

(c) *Quarterly projections of service delivery targets and performance indicators for each vote;*

(d) *Ward information for expenditure and service delivery; and*

(e) *Detailed capital works plan broken down by ward over three years*

7. FUNDING OF BUDGET

The budget must be funded in terms of the Councils approved Funding and Reserves Policy.

8. UNSPENT FUNDS AND ROLLOVER OF BUDGET

The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, excluding in the following instances:

(a) *Funds relating to capital expenditure; or*

(b) *Unspent grants (if the conditions for such grant funding allows that).*

Conditions of the grant funding shall be taken into account in applying for such rollover of funds.

No funding for projects funded from the Capital Replacement Reserve shall be rolled over to the next budget year except in cases where a commitment has been made at least 30 days (31 May each year) prior the end of that particular financial year.

No unspent operating budget shall be rolled over to the next budget year.

Any application for a rollover of capital funds must be forwarded to the Budget Office by the latest 15th of July of each year. Only these applications will be considered for inclusion in an adjustment budget. The adoption by Council will take place not later than 25th August.

9. BUDGET TRANSFERS AND VIREMENTS

9.1 Objective

The objective of this section is to allow limited flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen expenditure or savings as they arise to accelerate service delivery in a financially responsible manner.

9.2 Financial Responsibilities

Strict budgetary control must be maintained throughout the financial year in order that potential overspends and / or income under-recovery within an individual vote is identified at the earliest possible opportunity.

The Accounting Officer has a statutory duty to ensure an effective system of financial control, specifically to ensure compliance with Section 15 of the MFMA, is in place. The budget transfer and virement process is one of these controls.

It is the responsibility of each senior manager and/or head of a department/activity to which funds are allotted, to plan and conduct assigned operations so as not to expend more funds than budgeted.

In addition, they have the responsibility to identify and report any irregular or fruitless and wasteful expenditure in terms of the MFMA sections 78.

9.3 Virement Restrictions[3]

9.3.1 *No virement may take place between votes without consent of both vote holders and the approval of the Municipal Manager or MM delegate.*

[3] *Between Votes, i.e. Directorates*

9.3.2 A virement may not create new policy, significantly vary current policy, or alter the approved outcomes / outputs as approved in the IDP for the current or subsequent years.

9.3.4 No virements may commit the Municipality to increase recurrent expenditure, which commits the Council's resources in the following financial year.

9.3.5 An approved virement does not give expenditure authority and all expenditure resulting from approved virements are still subject to the supply chain management policy of Council as periodically reviewed.

9.3.6 Virements may not be made between Expenditure and Income.

9.3.7 Virements must not result in new projects on the capital budget.

9.3.8 Virements of conditional grant funds to a purpose outside than specified in the relevant conditional grant framework are not permitted.

9.3.9 The entire Virement policy will be drafted in line with mSCOA when version 6.1 has been locked down by National Treasury and final revision will be done during 17/18 financial year.

9.3.10 no virements are ~~permited~~permitted to Employee Related costs, utilization of savings accumulated within a financial year will be decided upon by the CFO and MM.

9.4 Budget Transfer Restrictions

9.4.1 No funds may be transferred between line items without authorisation of the vote holder.

9.4.3 Funds may only be transferred from or to the ring fenced group of employee related costs if approved by the CFO.

9.4.4 Transfers in capital budget allocations are only permitted within specified action plans and not across funding sources and must in addition have comparable asset lifespan classifications.

9.4.5 No transfers are permitted in the first or the final month of the financial year without the express agreement of the CFO.

9.4.6 An approved transfer does not give expenditure authority and all expenditure resulting from approved transfers must still be subject to the supply chain management policy of Council as periodically reviewed.

9.4.7 Transfers may not be made between Expenditure and Income.

9.4.8 Transfers should not result in new projects on the capital budget.

9.4.9 Transfers of conditional grant funds to a purpose outside than specified in the relevant conditional grant framework are not permitted.

9.5 Virement and Budget Transfer Procedure

9.5.1 All virement/transfer requests must be completed on the appropriate documentation and forwarded to the Budget and Tariffs official for processing.

9.5.2 All virements must be signed by the initiator, both vote holders and the Chief Financial Officer.

9.5.3 All budget transfers must be signed by the initiator, the authorised vote holder and the Manager (Budgets).

9.5.4 All documentation must be compiled and approved in line with the delegations as per section 79 of the MFMA before any expenditure can be committed or incurred.

10. ADJUSTMENT BUDGETS

Council may revise its annual budget by means of an adjustments budget in terms of section 28 of the MFMA and according to the timelines of the Municipal Budget and Reporting regulations section 23.

Section 28 (2) of the MFMA determines when an adjustment must be done and when it may be prepared.

The Accounting Officer must promptly prepare an adjustment budget if a material under-collection of revenues arises or is apparent.

The Accounting Officer shall prepare an adjustment budget and appropriate additional revenues, which have become available but only to revise or accelerate spending programmes already budgeted for or any areas of critical importance identified by Council.

The Council may in an adjustments budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Executive Mayor.

"(2) An adjustments budget—

(a) ***must*** *adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;*

(b) ***may*** *appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;*

(c) ***may****, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;*

(d) ***may*** *authorise the utilisation of projected savings in one vote towards spending under another vote;*

(e) ***may*** *authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;*

(f) **may** correct any errors in the annual budget; and

(g) ~~may~~May provide for any other expenditure within a prescribed framework."

The CFO shall ensure that an adjustments budget:

i. *Is prepared in accordance with the MFMA: Municipal Budget and Reporting Regulations;*

ii. *Reflects the budget priorities determined by Council;*

iii. *Complies with all budget-related policies; and*

iv. *Shall make recommendations to the Executive Mayor on the revision of the IDP and the budget-related policies where these are needed.*

An adjustments budget must contain all of the following:

i. *an explanation of how the adjustments affect the approved annual budget;*

ii. *appropriate motivations for material adjustments; and*

iii. *~~an~~An explanation of the impact of any increased spending on the current and future annual budgets.*

Any un-appropriated surplus from previous financial years, even if fully cash-backed, shall not be used to balance an adjustments budget, but shall be appropriated to the municipality's capital replacement reserve if cash-backed.

Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan compiled in terms of section 141 of the MFMA.

Unauthorised expenses may be authorised in an adjustments budget.

11. UNFORESEEN AND UNAVOIDABLE EXPENDITURE

Before the Executive Mayor considers any authorization of unforeseeable and unavoidable expenditure in terms of Section 29 of the MFMA, the Accounting Officer will ensure that a report is prepared consisting of all the relevant information in order for the Executive Mayor to make an informed decision.

The Executive Mayor may authorise such expenses in an emergency or other exceptional circumstances in terms of Section 29 of the MFMA only if:

(a) *the expenditure could not have been foreseen at the time the annual budget of the municipality was passed[4]; **AND***

[4]An item is considered as having been foreseen if a department has received notification thereof from any external source (such as consultant reports, etc.); legal action has been instituted against the municipality

(b) *the delay that will be caused pending approval of an adjustments budget by the municipal Council in terms of section 28(2)(c) of the Act to authorise the expenditure may –*

- *result in significant financial loss for the municipality;*
- *cause a disruption or suspension, or a serious threat to the continuation, of a basic municipal service;*
- *lead to loss of life or serious injury or significant damage to property; or*
- *~~obstruct~~Obstruct the municipality from instituting or defending legal proceedings on an urgent basis.*

*The Executive Mayor **MAY NOT** authorise expenditure in terms of section 29 of the Act if the expenditure -*

(a) *was considered by the Council, but not approved in the annual budget or an adjustments budget[5];**OR***

(b) *is required for-*

- *price increases of goods or services during the financial year;*
- *new municipal services or functions during the financial year;*
- *the extension of existing municipal services or functions during the financial year;12*
- *the appointment of personnel during the financial year; or*
- *allocating discretionary appropriations to any vote during the financial year; or*

(c) *would contravene any existing Council policy; or*

(d) *~~is~~Is intended to ratify irregular or fruitless and wasteful expenditure.*

The accumulated authorised amount/s may not exceed4per cent of the approved own revenue included in the annual budget.

The authorization must be reported by the Executive Mayor to the next Council meeting.

The Accounting Officer must ensure preparation of an adjustment to include the expenses within 30 days after the expenses were incurred.

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relating to the item; if any report has been submitted to a committee of Council bringing the item to the attention of Council.

[5]*Same as for footnote 4.*

The Executive Mayor must ensure that Council approves the adjustments budget within sixty days after the expenses were incurred.

12. UNAUTHORISED, IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE

12.1 UNAUTHORISED EXPENDITURE

The Accounting Officer, with the assistance of the CFO and other senior managers, must ensure that no unauthorised expenditure occurs as per definition included in section 1 of this document.

In the event that the Accounting Officer, CFO or any other senior manager, becomes aware of the fact that a decision taken is likely to result in unauthorised expenditure, then that official must immediately in writing report the incident to the Accounting Officer or Executive Mayor as the case may be.

In the event that unauthorised expenditure has occurred, then the relevant senior manager, vote holder within which vote the expenditure occurred, must prepare a report within 10 working days after it came to his/her knowledge.

Council adopted a Policy on Unauthorised, Irregular or Fruitless and Wasteful Expenditure that manages the procedures to be followed in the case of any of these expenditures occurring.

12.2 IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE

The Accounting Officer, with the assistance of the CFO and other senior managers, must ensure that no irregular or fruitless and wasteful expenditure occurs as per definition included in section 1 of this document.

In the event that the Accounting Officer, CFO or any other senior manager, becomes aware of the fact that a decision taken is likely to result in irregular or fruitless and wasteful expenditure, then that official must immediately in writing report the incident to the Accounting Officer or Executive Mayor as the case may be.

In the event that irregular or fruitless and wasteful expenditure has occurred, then the relevant senior manager, vote holder within which vote the expenditure occurred, must prepare a report within 10 working days after it came to his/her knowledge.

Council adopted a Policy on Unauthorised, Irregular or Fruitless and Wasteful Expenditure that manages the procedures to be followed in the case of any of these expenditures occurring.

13. BUDGET IMPLEMENTATION

13.1 Monitoring

The Accounting Officer, with the assistance of the CFO and other senior managers, is responsible for the implementation of the budget, and must take reasonable steps to ensure that:

(a) Funds are spent in accordance with the budget;

(b) Expenses are reduced if expected revenues are less than projected; and

(c) Revenues and expenses are properly monitored.

The Accounting Officer, with the assistance of the CFO, must prepare any adjustment budgets when such budget is necessary and submit it to the Executive Mayor for consideration and tabling to Council.

The Accounting Officer, with the assistance of the CFO, must ensure that the Municipality has and maintains an effective system of expenditure control in order to assist with budget control. Budget control must be performed on the lowest level of the budget, as well as the starting activity of an expense (i.e. by line item).

The Accounting Officer, with the assistance of the CFO, must ensure that the Municipality has and maintains effective systems of:

- *Revenue collection; and*
- *Debtor management.*

The assumptions on which the revenue forecasts were based must be monitored on at least a bi-annual basis.

The Accounting Officer, with the assistance of the CFO and other senior managers, must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems

13.2 Reporting

13.2.1 Monthly budget statements

The Accounting Officer, with the assistance of the CFO, must not later than ten working days after the end of each calendar month, submit to the Executive mayor and Provincial and National Treasury a report in the prescribed format on the state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

The report to the National Treasury must be both in electronic format and in a signed written document.

13.2.2 Quarterly Reports

The Accounting Officer, with the assistance of the CFO, must assist the Executive Mayor; in his/her duties in terms of section 52(d) of the MFMA to submit to Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the Municipality.

13.2.3 Mid-year budget and performance assessment

The Accounting Officer must assess the budgetary performance of the Municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan.

The Accounting Officer must then submit a report on such assessment to the Executive Mayor, Provincial Treasury and National Treasury by 25 January each year. The Executive Mayor must table this report to the Council by 31 January each year.

The Accounting Officer may in such report make recommendations, after considering the recommendation of the CFO, to prepare an adjustment budget.

14. CONCLUSION

The Director Corporate Services must place and maintain on the municipality's official website the following documents:

(a) Annual and adjustments budgets and all budget-related documents;

(b) All budget-related policies;

(c) Integrated Development Plan;

(d) Annual report;

(e) All performance agreements;

(f) All service delivery agreements;

(g) All long-term borrowing contracts; and

(h) All quarterly and mid-year reports submitted the Council on the implementation of the budget and the financial state of affairs of the municipality.

15. REVIEW

This Budget Policy is the only policy of the municipality and replaces any past policies in this regard. Any revision of this policy must be approved by Council. This policy must be reviewed and submitted for consideration by Council on an annual basis. Such submission must be accompanied with a full description of the reasons for the change to the policy.

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LIQUIDITY POLICY

Contents

1. INTRODUCTION

The documented Liquidity Policy sets out the minimum risk management measures that Knysna Municipality has to implement and adhere to in order to ensure that its current and future liquidity position is managed in a prudent manner.

Liquidity is the amount of cash and / or "near cash" (which refers to assets or security that can easily and quickly be converted to cash), available to be utilized to meet obligations and / or pay commitments. The marketability or ability to buy or sell an asset without incurring unacceptable large losses thus determines the liquidity of an asset or defines it as near cash.

This Policy is implemented to provide guidance on the minimum liquidity level that Knysna Municipality has to maintain in order to comply with required legislative and / or National Treasury directives and within the overall financial management objectives as approved/reviewed by the Council from time to time.

2. BACKGROUND AND APPROACH

Various policies and procedures exist that direct the way in which the business of Knysna Municipality is or should be conducted in a prudent manner. Generally, these policies and procedures flow from the prescription made in Legislation i.e. the Municipal Finance Management Act ("MFMA") and/or directives issued by a national department such as National Treasury.

Guidelines provided by National Treasury indicate that an acceptable level of cash resources needs to be available for working capital requirements (see below).

It is for this reason that the need to have an official Liquidity Policy was identified.

3. LEGISLATIVE REQUIREMENTS

3.1. The MFMA circular 71 stipulates the following two prescribed ratios to manage liquidity:
Cash/Cost Coverage Ratio (Excluding Unspent Conditional Grants) is calculated as:
((Cash and Cash Equivalents - Unspent Conditional Grants - Overdraft) + Short Term Investment) / Monthly Fixed Operational Expenditure excluding (Depreciation, Amortisation, Provision for Bad Debts, Impairment and Loss on Disposal of Assets)

Criteria: 1 – 3 times
Current Ratio Current Assets / Current Liabilities

Criteria: 1.5 - 2:1

The above guidelines are noted but the proposed policy is more conservative to ensure that the municipality secures its strong financial position thereby providing comfort to investors.

4. LIQUIDITY POLICY

This policy provides guidance on the determination of the minimum liquidity requirement and the calculation of the liquidity available of Knysna Municipality from time to time (see **Annexure 1**).

Notwithstanding the requirements as reflected in this policy, Knysna Municipality should ensure that its Current Assets (excluding debtors older than 90 days) cover all of its Current Liabilities at least two times.

The policy encapsulates certain key aspects and considerations which have been outlined below:

4.1. KEY COMPONENTS OF MINIMUM LIQUIDITY REQUIRED:

The following constitutes the key elements to take into consideration when determining the liquidity requirement of Knysna Municipality:

4.1.1. To comply with statutory requirements, it is proposed that the following funds, reserves and provisions be fully covered by unencumbered cash and investments:

4.1.1.1. All earmarked or conditional grant transfers from spheres of Government or from Public Contributions made to Knysna Municipality that have not yet been utilized;

4.1.1.2. All commitments resulting from the legally entrenched rights and benefits employees have, with specific reference to the Council's short term commitment to staff retirement benefits and medical fund claims payable;

4.1.1.3. All funds not yet been utilized in relation to agency services provided on behalf of Provincial or National Government should also be treated as earmarked funds;

4.1.1.4. All reserves stated by Knysna Municipality on its Statement of Financial Position that have been established for the purposes of making provisions for a defined purpose.

4.1.2. Cognisance also needs to be taken of the external loan commitments and the servicing of capital and interest on these loans. Therefore, provision should be made

that Knysna Municipality can meet its external loan/financial commitments together with the normal operational expenditure, as well as its liabilities to staff.

4.1.3. All investments ceded as security against long term loans need to be excluded from total cash and investment balances for calculation of the minimum liquidity level required.

4.1.4. In addition, a level of cash available for normal operational expenditure needs to be held in cash to ensure that, notwithstanding fluctuations in the monthly income levels of Knysna Municipality, Knysna Municipality will be in a position to meet its financial requirements. In this respect, the average monthly operational expenditure needs to be used as a guide of the minimum buffer required. Two month's operational expenditure excluding debt impairments, depreciation and other non-cash expenses should be available for liquidity cover.

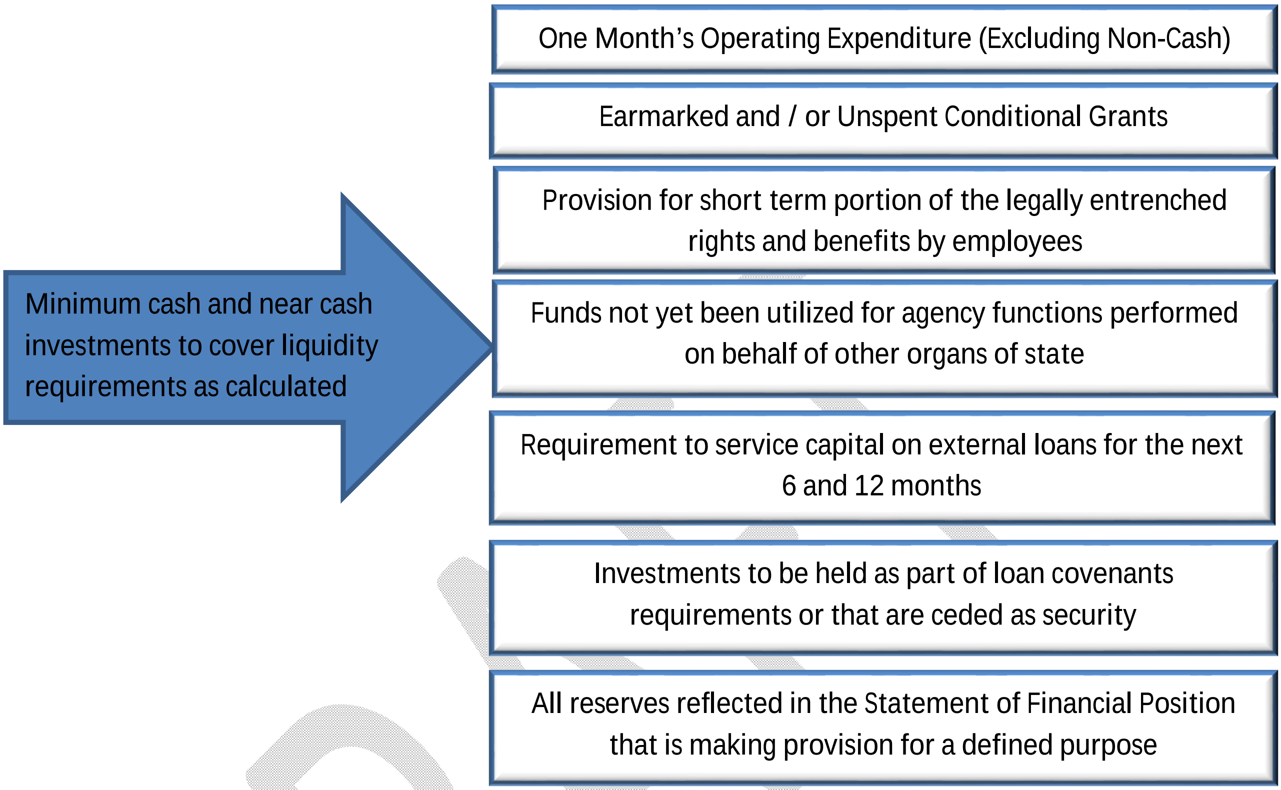
4.1.5. The "golden rule" should be to ensure that Knysna Local Municipality will have adequate liquid assets (those that can be made into cash within 24 hours, weekly or monthly as the requirement might be) to meet its short term financial commitments.

4.2. CALCULATION OF AVAILABLE LIQUIDITY

The amount of liquidity available should be determined from time-to-time. The following, should be regarded as cash and or near cash in calculating the available liquidity:

4.2.1. All cash held in a bank account or invested with a money market fund;
4.2.2. 95% of the value of all Negotiable Certificate of Deposit (NCD's) or other tradable instruments issued by a bank that are not already ceded;
4.2.3. 90% of the market value of all listed bonds on the JSE in which Knysna Municipality is allowed to invest in;
4.2.4. Consumer debtors aged current to 60 days;
4.2.5. Amount of unspent conditional grants and public contributions excluded from own funds held in bank accounts;
4.2.6. Funds provided to Council for expenditure on activities executed on behalf of other spheres of Government (Provincial and / or National) as part of an agency function, excluded from own funds held in bank accounts;
4.2.7. Funds ring-fenced for cash backed reserves that are excluded from own funds held in bank accounts;
4.2.8. Cash amounts that need to be held by Council resulting from loan covenants' that are part of the conditions of loans extended, but not ceded outright to lenders;
4.2.9. The undrawn portion of unconditional bank overdraft facility or liquidity facility available to Knysna Municipality.

The aforementioned in paragraphs 4.1. and 4.2. can schematically be reflected as follows:



4.3. IMPLEMENTATION AND MONITORING OF COMPLIANCE WITH LIQUIDITY POLICY:

Once the policy is approved, the CFO is to be tasked to ensure that the required cash has to be maintained to continue meeting the requirements as set out in this policy.

Firstly, the minimum required liquidity level should be calculated based on audited annual financial statements. This level of liquidity required needs to be specifically budgeted for and on a quarterly basis be reported to the Finance Committee and / or other Committees as might be stipulated by Council as well as to Council.

Notwithstanding National Treasury's three months' operational expenditure guideline and the one-month operational expenditure buffer proposed as a minimum by the liquidity policy, it is recommended that Council set a target of one month's operational expenditure liquidity buffer to be achieved at the end of the transitional period (reference paragraph 6).

The cash provisions made to repay external loan commitments, if specifically earmarked, should also be added to this minimum working capital liquidity, to prevent fluctuations in the working capital reserve that could put the minimum level of liquidity levels under pressure.

5. Corporate Governance (Oversight)

The minimum liquidity requirements must be determined, at least, on a monthly basis by the Chief Financial Officer and reported to the Municipal Manager.

Compliance with this policy will be monitored by the Chief Financial Officer. The Chief Financial Officer must present the liquidity compliance reports to the Finance Committee and the Audit Committee of the municipality.

Where compliance has been breached the Chief Financial Officer must present an action plan to correct the non-compliance. The Finance Committee must monitor the successful implementation of the corrective action plans and report progress to Council.

6. Policy Management

The Liquidity Policy forms part of Knysna Municipality overall financial objectives and therefore forms part of approved Budget Policies. The policy must be reviewed at least annually during the budget revision and presented to Council for approval.

The policy is effective from the date it is approved by Council.

ANNEXURE 1

Liquidity Requirement as per Liquidity Policy

Financial Year End: ____________________________

Liquidity Requirement Calculation [as stipulated in Paragraph 4.1.]

All earmarked and/or conditional grants received but not yet utilised	
Value of legally entrenched short term rights and benefits of employees related to Medical benefits & Retirement benefits	
Unspent Loan Funds	
Funds held for agency services not yet performed	
Reserve funds reflected in Statement of Financial Position that are assumed to be held in cash	
Capital redemption and interest payments on external loans not reflected as part of normal operational expenditure	
1 month's operational expenditure excluding non-cash items	
Commitments resulting from contracts concluded as part of Capex Programme, not reflected in operational budget	
TOTAL LIQUIDITY REQUIREMENT	

Actual available liquidity held [reference paragraph 4.2.]

Bank Balance at e.g.: - ABSA, FNB, Standard Bank, Nedbank, Investec, Money Market	
Bank balance sub total	
95% of all other term investments with Banks	
90% of Market value of all Bonds on the JSE that are held	
Consumer debtors (current – 60 days)	
Other reserves held in cash not reflected in bank balances mentioned above for e.g.:	
- Unspent conditional grants	
- Payments received for agency functions not yet performed	
- The cash value of reserves held	
- Cash deposits held as part of loan covenants or ceded	
- Undrawn bank overdraft facility or committed liquidity lines available	
TOTAL LIQUIDITY AVAILABLE	

LIQUIDITY SURPLUS (SHORT FALL) ____________

SURPLUS TO BE APPROPRIATED TO CAPITAL REPLACEMENT RESERVE ____________

(See Borrowing, Funds and Reserves Policy)

Liquidity ratio:
Current Asset/Current Liabilities ____________

As approved by Council at the Council meeting which was held on …… May 2017.

Signed at KNYSNA on the …..th day of May 2017.

…………………………………………

Municipal Manager:

ANNEXURE 1

<u>Liquidity Requirement as per Liquidity Policy</u>

Financial Year End: ____________________________

Liquidity Requirement Calculation [as stipulated in Paragraph 4.1.]

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Funds held for agency services not yet performed	
Reserve funds reflected in Statement of Financial Position that are assumed to be held in cash	
Capital redemption and interest payments on external loans not reflected as part of normal operational expenditure	
1 months operational expenditure excluding non-cash items	
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90% of Market value of all Bonds on the JSE that are held	
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- Unspent conditional grants	
- Payments received for agency functions not yet performed	
- The cash value of reserves held	
- Cash deposits held as part of loan covenants or ceded	
- Undrawn bank overdraft facility or committed liquidity lines available	
TOTAL LIQUIDITY AVAILABLE	

LIQUIDITY SURPLUS (SHORT FALL) ____________

SURPLUS TO BE APPROPRIATED TO CAPITAL REPLACEMENT RESERVE ____________

(See Borrowing, Funds and Reserves Policy)

Liquidity ratio:
Current Asset/Current Liabilities ____________

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CREDIT CONTROL POLICY AND PROCEDURES

Effective from: 01 July 2016

INDEX

CREDIT CONTROL POLICY AND PROCEDURES

1. DEFINITIONS:

For the purpose of this policy, the wording or any expression used has the same meaning as contained in the Act, except where clearly indicated otherwise and means the following:

"Act" The Local Government Municipal Systems Act, 2000 (Act No 32 of 2000) as amended

"Agreement" an arrangement to pay off an arrear amount with interest over an agreed period of time.

"Business" any trade, manufacturing, service delivery or commercial activity as the primary objective

"consumption" the usage of water and electricity through Council's metered or prepaid Systems

"collection cost" all cost associated with credit control and debt collection, including interest, penalties service disconnection cost and legal cost.

"Council" the municipal council of the Municipality of Knysna

"customer/consumer" any occupier and/or owner of any property to which the municipality has agreed to supply services or already supplies services to, or failing such an occupier, then the owner of the property.

"defaulter" a person who owes money to the municipality after the due date has expired.

"deposit" a sum of money or bank guarantee paid in lieu of a service to be rendered.

"dishonoured cheque" refusal by a bank to pay an amount ordered by cheque to Knysna Municipality for whatever reason

"household income" the income accruing to all members of the household permanently residing at that address.

"indigent household/customer" means households that are registered at the municipality as such and meet the criteria i.t.o the credit control and debt collection policy and occupying a property within the jurisdiction of the municipality.

"interest" a charge levied and calculated at the prime interest rate plus a percentage on all arrear amounts owed to Council

"municipal account" an account rendered specifying charges for services provided by the municipality

"municipal services" those services provided by the municipality, such as the supply of water, electricity, refuse removal, sewerage treatment , and for which service charges are levied.

"non-indigent household" means households that are not registered and who does not meet the criteria to qualify for indigent support in terms of this policy

"prepayment service/system" means a system whereby the consumers of electricity and water makes a payment in advance for the use of the service.

"property" any portion of land of which the boundaries are determined within the jurisdiction of the municipality

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2. CREDIT CONTROL PROCEDURES

The credit control policy requires that all municipal accounts be paid on the due date as indicated on the account and that non-payment of accounts will result in credit control action being taken to ensure full compliance.

2.1 PREPAYMENT ELECTRICITY SYSTEM

2.1.1 Councils preferred metering system for domestic and certain business consumers is the prepayment metering system.

2.1.2 Arrear debt of consumers with prepayment meters will be dealt with in terms of credit control facilities available on the prepayment system.

2.2. ARRANGEMENTS – CREDIT CONTROL

2.2.1 Arrangements

A resident who encounters problems in paying the municipal account may enter into an arrangement to pay the outstanding account, plus interest, over an extended period of time.

2.2.2 Responsibilities of residents in regard to arrangements

The resident must:

2.2.2.1 Enter into an agreement with the Municipality and
2.2.2.2 Sign an acknowledgement of debt.

2.2.2.3 Acknowledge that interest will be charged at the prescribed rate.

2.2.2.4 Acknowledge that if the arrangements being negotiated are later defaulted on, then restrictions on water supply and/or the disconnection of electricity and/or the prevention of purchasing electricity or water on the Prepayment System will follow immediately, to be followed if necessary by legal proceedings.

2.2.2.5 Acknowledge liability for all legal costs which may be incurred.

2.2.3 **Broken agreement**

In the event that an agreement is broken, all arrear agreement instalments, plus the current monthly account, must be paid before a new agreement may be entered into.

2.2.4 **Customers will be categorised into income categories which are subject to the amendment of Council on an annual basis:**

2.2.4.1 Indigent (Gross household income of less than R4600 per month).

2.2.4.2 Gross household income exceeds R4600 per month.

2.2.4.3 Non domestic (excludes Government Departments).

2.2.4.4 Government Departments.

2.2.5 **Arrangements by indigent customers**

2.2.5.1 Indigent customers will have their credit electricity meters converted to a 20 amp circuit breaker at Council expense.

2.2.5.2 Any arrangement for the payment of debt will be as determined for the payment of arrears on the prepayment system.

2.2.5.3 Any application for further assistance must be made in terms of Council Policy.

2.2.6 **Arrangements by non indigent customers**

2.2.6.1 **An arrangement by non indigent customers must include the following:**

- Payment of the current monthly account.

- Payment of arrears for the current financial year over a maximum period of 12 months within the current financial year.

- Payment of arrears, being the amount outstanding for the previous financial year, as follows:

  Income group less than R5 000 – over a maximum period of 36 months

  Income group R5 000 and more – over a maximum period of 24 months

- All arrangements will be converted from annual rates accounts to monthly payments excluding municipal officials where the provisions of section 10 of schedule 2 of the Municipal Systems Act will apply with regards to arrears for a period longer than 3 months, whereby the Municipality may deduct the arrears from a staff member's salary.

2.2.6.2 Domestic customers with arrangements or upon a 3 times default must have their credit electricity meters converted to prepayment electricity meters on request/at the cost of Council.

2.2.6.3 Reduced interest charges or a discount on arrears may at the discretion of the Director Financial Services be considered.

2.2.6.4 No further interest will be levied for entering into a fix term agreement for all legal suite accounts and attorney handovers. Interest will however be added for non-compliance to the terms and conditions of the fix term agreement. The agreement will on a two times default be cancelled and a summons will be issued for the total amount plus interest at prime plus 2% outstanding and no further agreements will be entered in.

2.2.6.5 Council employees who are in arrears for longer than three months will have their thirteenth cheque offset against the outstanding arrear amount in the first instance.
A reminder of the arrears and if necessary a demand for payment will be issued and failure to comply with the demand

for payment will result in the arrears to be offset against the thirteenth cheque of an employee.

2.2.6.6 In terms of section 12 A of Schedule 1 of the Municipal Systems Act Councillors should not be in arrears with their municipal account for a period longer than 3 months. Councillors who are in arrears will be informed and required to put an arrangement in place whilst keeping all current payments up to date. Failure to do so may result in the Municipality deducting the arrears from a Councillor's allowance. Any agreement in this regard may not exceed the term of office of a Councillor.

2.2.7 **Arrangements by Businesses**

2.2.7.1 **The arrangement for businesses are:**

- Current account to be fully maintained

- Balance of the arrears to be paid over a period of twelve (12) months.

- Customers with arrangements may have their credit electricity meters converted to prepayment meters on request/at the cost of Council.

- A full and final settlement may be negotiated with businesses provided that a least 90% of the debt is paid on condition that a prepaid electricity meter is installed at their own cost where practically possible.

2.2.8 **Debt Arrangement – Prepayment system**

2.2.8.1 The prepayment electricity system implemented by Council has a debt management facility. There are various blocking types, which can be utilised to collect arrear debt as follows:

2.2.8.1.1 **Total Block**

The consumer is blocked from buying electricity due to arrear debt and will be unblocked only when: -

- The arrear debt is paid in full, or

- An agreed arrangement has been made to pay off the arrear debt with an initial payment of R250,00 in order to unblock a customer.

2.2.8.1.2 **Percentage Blocking**

Each time the consumer makes a purchase a percentage of the amount tendered is allocated to arrear debt as follows:

(a) Non-payment of services after 30 days – 20% Of the electricity purchase will be allocated.

(b) Non-payment of services after 60 days – 30% of the electricity purchase will be allocated.

(c) Non-payment of services after 90 days – 40% of the electricity purchase will be allocated

(d) If after a further 180 days, there are still outstanding service amounts, the remaining services debt will be handed over for collection and the consumer blacklisted.

(e) Indigent, social welfare recipients and pensioners will be excluded from the percentage block system

2.2.8.2 **Indigent Customers**

Indigent consumers will be required to pay their current monthly account before electricity can be purchased. The monthly account is the amount after the indigent subsidy has been deducted

2.2.8.3 **Non-Indigent Customers**

An arrangement must be made with the customer to pay a minimum monthly instalment, which will include monthly charges plus the repayment of arrears within a maximum period of twelve (12) months.

3. FINAL ACCOUNTS

3.1 Electricity and Water accounts

3.1.1 When electricity and water consumers move from one premise to another an application for disconnection of services must be completed by the consumer, which must indicate the forwarding address of the consumer and the date of the cancellation of the service.

3.1.2 On the indicated date of cancellation a final reading will be taken of the electricity and water consumption and the consumer will be billed for the consumption until the final reading.

3.1.3 The consumer's deposit, which is held by Council, will be appropriated against the account.

3.1.4 If after the appropriation of the account, a credit balance remains on the account, the credit balance will be refunded to the consumer.

3.1.5 If after the appropriation of the account a debit balance remains on the account the balance on the account must be paid by the consumer.

3.1.6 If a debit balance remains unpaid by a consumer that has left town, the case will be handed over within 60 days for legal proceedings to be instituted.

3.1.7 If a debit balance remains unpaid of a consumer that moved from one premises to another, it will be transferred to the new current account of that consumer.

3.2 Absconded Debtors

3.2.1 On becoming aware that the person who applied for the service has absconded a final reading of services will be taken, a final account produced and the consumer deposit appropriated.

3.2.2 Any credit balance on an account will be credited against any arrear balance on an account after which it will be handed over for legal proceedings to be instituted.

3.2.3 The service to the premises will be disconnected in such a way as to prevent service consumption without the required prior application for connection of services.

3.2.4 Any connection of services without prior application for these services will lead to immediate disconnection and a R2000 fine imposed.

3.2.5 In terms of Section 118 of the Municipal Systems Act the owner of a property is ultimately responsible for municipal debt on a property.

3.3 **Rates Clearance Certificates**

3.3.1 When an owner of a property sells the property a rates clearance must be obtained from Council by the conveyancing attorney in terms of section 118 of the Municipal Systems Act, No. 32 of 2000.

3.3.2 Council must certify that all municipal charges have been fully paid.

4. LEGAL ACTION PROCEDURES

4.1 Procedure

4.1.1 Legal action will commence by way of letter of demand sent by ordinary mail or hand delivery to the address of the debtor.

4.1.2 All cost associated with credit control and debt collection including interest, penalties, service discontinuation costs, phone call charges, letter charges, search charges and legal costs are for the account of the debtor and should reflect at least the cost of the particular action.

4.1.3 If there is no response to the letter of demand a summons must be delivered to the Clerk of the Court within 10 (ten) days of expiry of the demand period.

4.1.4 If there is no response to the summons then an application must be made for default judgment immediately the time allowed for entering an appearance to defend has expired.

4.1.4.1 If any matters are defended then these must be reported to Council's attorneys.

4.1.5 Once default judgement has been granted:

4.1.5.1 Should the capital be less than R3 000 (Three Thousand Rand), action shall proceed by means of a writ against movable property.

4.1.5.2 In the event that the capital is R3000 or more, then a writ may also be served against immovable property.

4.1.6 Council shall endeavour wherever possible to persuade the debtor to sign a consent to judgment and a consent to an emoluments attachment order which will satisfy the judgment debt within 12 (twelve) months.

4.1.7 Before drafting the notice of sale in execution for the sale of immovable property, the file summary must be submitted to the Mayoral Committee to obtain authority.

4.1.8 Before each step in the process is made, Council shall continuously verify the municipal financial system, to confirm details of the debtor/consumer's status, namely indigency, arrangements made etc.

4.1.9 Files will only be closed upon the written instruction of the Municipality.

4.1.10 If the debtor is not traceable, Tracing Agents will be appointed, alternatively Council will be advised to write off the debt and the file closed.

4.1.11 Council shall be informed at all times of irrecoverable debt and the reason thereof together with a recommendation for a write off.

4.1.12 The Municipal Manager and The Director Financial Services or his/her delegate may during the legal action stage consider a request for a waiver of interest or a lesser amount in full and final settlement of the arrears. The amounts so considered may not exceed the limit as prescribe under Council's delegated authority.

5. COMMITTEE FOR DEBTORS SUPPORT

5.1 Purpose of the Committee

5.1.1 The purpose of the Committee is to allow for an input by Councillors in legal matters that have reached the sale-in-execution stage, due to non-payment of rates and services charges.

5.1.2 All cases that reached the sale-in-execution stage in the legal process will be referred to the Committee.

5.1.3 The reason for this is to encourage debtors to pay their accounts through the assistance of Ward Councillor visits, which may result in debtors not losing their houses in a sale-in-execution.

5.2 Principles involved

5.2.1 The Credit Control Policy is the basis of the operation of this Committee and in terms of the existing legislation must be enforced.

5.2.2 The Committee will comprise of the Municipal Manager (Chairperson), Finance Manager, or his designated official, and all Ward Councillors.

5.2.3 The Committee will have no authority to prevent Credit Control Action. It is a committee that will monitor the progress of Ward Councillors in encouraging debtors to pay their accounts. If after 2 (two) months, no progress has been made then normal credit control action will resume.

5.2.4 The Committee will have no decision making authority and may only make recommendations to Council.

5.2.5 The Committee will meet on an as and when basis to discuss issues.

6.2.6 In terms of legal action, the Credit Control Section will proceed with the attachment and sale of movables, failing which the immovable property will be attached and sold in terms of relevant legislation

6. ANNUAL RATES, REFUSE AND SEWERAGE CHARGES

6.1 Annual rates, refuse and sewerage charges become due and payable on 1 July of every year and are extended to 30 September for debtors who have not made applications to pay rates in instalments.

6.2 If the annual rates, refuse and sewerage charges remain unpaid after 30 September a letter of final demand per registered mail and/or hand delivered shall be served on the debtor liable to pay the amounts due. The debtor will be given 10 business days after receipt of the demand to pay the amount payable.

6.3 Debtors who fail to respond to the final demand will be handed over for legal action to collect the arrears.

6.4 Interest on arrears will be charged on annual charges, which remain unpaid after 30 September and will be charged until the account is settled in full.

6.5 Ratepayers/residents may make use of the facility available to pay annually charged property rates, refuse, sewerage and service charges in twelve (12) monthly instalments.

6.6 In order to qualify for the payment of annual charges in twelve monthly instalments, ratepayers/residents must complete an application form to pay assessment rates by instalments. This form will be available at all municipal finance offices.

6.6.1 The above form must be completed and handed in before 31 May in the preceding financial year in which the ratepayer/resident wishes to commence with the payment annual rates and service charges in twelve monthly instalments.

6.6.2 The Ratepayer/Resident will agree: -

- To the monthly instalment be paid on or before the due date as indicated on the account.

- That interest on arrears will be charged on unpaid instalments after the due date as indicated on the account.

6.6.3 All rates and service charges for the previous financial years must be paid before the facility can be implemented.

6.6.4 The facility will be applicable until withdrawn in writing by the ratepayer, resident or Council.

6.7 If more than three instalments, whether consecutive or not, are unpaid or paid in arrears during any financial year, a notice in writing shall be served on the debtor to withdraw the right to pay annual rates and service charges by instalment and after no response from the debtor within 14 days the monthly instalment facility must be cancelled and the total annual charge becomes due and payable, after which total amount due must be handed over for legal action to be instituted to collect the arrears.

6.8 Arrear rates if owed by the owner may in terms of Section 28 and 29 of the Municipal Property Rates Act be recovered in whole or in part from a tenant, occupier, or agent of the owner of the property

6.8.1 Upon servicing of a written notice on the tenant or occupier or agent of the property.

6.8.2 The recoverable amount is limited to the amount of the rent or other money due and payable by the tenant or occupier or agent to the owner.

7. <u>MONTHLY RATES, REFUSE, SEWERAGE AND SERVICES ACCOUNTS</u>

7.1 Monthly charges on accounts are liable on the due date as indicated on the account.

7.2 Interest on arrears will be charged on accounts unpaid after the due date.

7.3 Consumers with electricity meters may have their electricity supply disconnected after the due date for non-payment of any of the above monthly charges and may only be reconnected after the account has been settled in full or until an acknowledgement of debt has been signed.

7.4 Consumers who again fail on their arrangement to repay the debt will have their electricity supply again disconnected and will not be reconnected until all arrear arrangement instalments and the current account is paid.

7.5 Consumers in arrears with prepayment electricity meters will be dealt with in terms of the debt collection facilities available on the prepayment system to a level of 20% of purchases.

7.6 If the above actions (7.1 to 7.4) fail to collect the arrears within 90 days the accounts will be handed over for legal action.

8. MONTHLY ELECTRICITY AND WATER CHARGES (NON PREPAYMENT)

8.1 The due date for the payment of accounts for electricity and water charges for any month will be the date as stated on the accounts.

8.2 A notice will appear on the monthly statement to the effect that "The supply of services may be discontinued without further notice if any amount is unpaid after the due date and the deposit may be simultaneously reviewed".

8.3 If the account is not paid by the due date as stated on the account the electricity service to the consumer will be disconnected until the debt has been settled in full or until an acknowledgement of debt has been signed and a payment arrangement as approved by Council agreed to.

8.4 Electricity supply to consumers may be disconnected for other municipal charges i.e. rates, refuse, sewerage, water and sundry debtors. Section 102 of the Municipal Systems Act, Act 32 of 2000 determines that the accounts of the various rate and service charges may be consolidated and debt collection measures applied when a consumer defaults.

8.5 The disconnection of an electricity service will be undertaken in two phases i.e. first line and second line disconnections and will apply as follows:

8.5.1 When a consumer defaults on the payment of the amounts due, first line disconnection will apply. First line disconnection means that the pole fuse or the circuit breaker and the bridge piece will be removed.

8.5.2 Any consumer who unlawfully reconnects the electricity supply after being disconnected for an overdue account will be disconnected as a second line. The second line disconnection means that the electricity service to the property will be removed.

8.5.3 On first line disconnection, a disconnection and reconnection fee is payable and will be debited to the debtors account.

8.5.4 On second line disconnections, penalties and reconnection fees are payable and the reconnection of electricity will only be done when the penalty, reconnection fee and total amount due is paid in full.

8.5.5 When a consumer consistently fails to pay his or her account by the due date the meter will be removed and replaced with a pre-payment meter of which arrears will be recovered as an auxiliary amount via the pre-payment system.

9. SUNDRY DEBTOR ACCOUNTS

9.1 All debts that fall in this category are payable on presentation of an account (e.g. damage to municipal property, such as electricity poles, traffic lights, etc).

9.2 The relevant department that initiates this type of transaction must forward all the relevant documentation to the Manager: Income.

9.3 All debt that has not been settled within one month from the date of invoice must be referred for collection.

9.4 Depending on the circumstances of each case and the amount involved, arrangements can be made to redeem the debt over a period to a maximum of 6 months.

9.5 Debt of 60 days and over will be handed over for legal action.

10. DISHONOURED DEBTOR CHEQUES (R/D CHEQUES)

10.1 On receipt of a dishonoured cheque the payment will be reversed on the debtors account.

10.2 Services to the debtor's premises – will be disconnected after notification of the cheque being dishonoured- and only reconnected when the debtor's account has been settled.

10.3 No arrangement to pay arrears will be entertained.

10.4 The debtor will be informed that only cash will be accepted in future.

11. UPFRONT CREDIT CONTROL

11.1 No Building plans will be approved if Council is owed money.

11.2 No electricity upgrades will be approved if Council is owed money.

11.3 The application for a service connection from a tenant will not be approved if debt is still outstanding from previously occupied properties

11.4 No refund of any deposit will be approved if Council is owed money.

12. ALLOCATION OF PAYMENT RECEIVED

12.1 Settlement of an account clears all charges, including interest on arrears and tamper fees where applicable.

12.2 Part payment of an account will be allocated at the discretion of Council.

12.3 The priority allocation of part payments are as follows:

- Interest on arrears
- Assessment rates
- Refuse and sewerage charges
- Miscellaneous charges
- Rental charges
- Electricity and Water

12.4 The selected payment of certain charges is not allowed.

12.5 Council may consolidate any separate accounts of persons liable for payments and credit a payment against any account of that person and implement debt collection and credit control measures to any arrears on any of the accounts

NOTE: The priority allocation of part payments shall be agreed by Council on an annual basis by means of approval of this policy.

KNYSNA MUNICIPALITY

KNYSNA
Municipality Munisipaliteit uMasipala

PROPERTY RATES POLICY

Effective from 01 July 2016

PROPERTY RATES POLICY:

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KNYSNA MUNICIPALITY

PROPERTY RATES POLICY 2016/17

1. BACKGROUND

In 2011, the Knysna Municipality initiated a process to prepare a General Valuation Roll of all property situated within the geographical boundaries of the municipality in terms of the Local Government: Municipal Property Rates Act, 6 of 2004 (MPRA), which became operative on 2 July 2005. This policy is formulated in terms of section 3 of the MPRA.

2. LEGISLATIVE CONTEXT

2.1 In terms of section 229 of the Constitution, a municipality may impose rates on property.

2.2 In terms of section 4(1)(c) of the Local Government: Municipal Systems Act, 32 of 2000 (MSA), a municipality has the right to finance the affairs of the municipality by imposing, inter alia, rates on property.

2.3 In terms of section 2(1) of the MPRA, a municipality may levy a rate on property in its area in accordance with the other provisions of the MPRA.

2.4 This policy must be read together with, and is subject to the provisions of, the MPRA and the Knysna Municipality Rates By-Law.

2.5 In terms of Section 8(1) of the MPRA, the municipality is levying rates on the use of the property.

3. DEFINITIONS

In addition to the definitions contained in the MPRA and the Rates By-Law, the following words and phrases bear the meanings assigned to them below:

"Act" means the Local Government Municipal Property Rates Act, 2004 (No.6 of 2004);

"Agricultural property" means property that is used primarily for agricultural purposes but excluding any portion thereof that is used commercially for the hospitality of guests, and excludes the use of the property for the purpose of eco-tourism or for the trading hunting of game.

"Green rebate" means a rebate granted by Council on a property or residential estate situated outside of the urban edge as defined in the Knysna Spatial Development Framework and which has a management plan to manage and eradicate alien vegetation and which encourages the retention of the unique natural economy and environment that is Knysna.

"Heritage" means a property containing a building or other heritage resource of national, provincial, or municipal significance.

"Major accommodation establishment" means a facility that provides for lettable residential and non-residential units or homes, holiday or self-catering accommodation on a regular, seasonal and continuous basis where the total number of lettable bedrooms exceeds eight or the property offers restaurant and/or bar and/or conference facilities.

"Market value", in relation to a property, means the value of the property determined in accordance with section 46 of the Act;

"Minor accommodation establishment" means a facility that provides for lettable residential and non-residential units or homes, holiday or self-catering accommodation on a regular, seasonal and continuous basis in addition to its primary use for a single family residence where the number of lettable bedrooms does not exceed eight.

"Naturally Knysna incentive rebate" means a rebate granted by Council on an industrial or commercial property, the purpose of which is to incentivise the movement of business to support the principles embodied in the initiative that is Naturally Knysna.

"New Business incentive rebate" means a rebate granted, on an inclining scale, on a property used for a new business brought to the area.

"Non-residential" means all property other than those defined as residential.

"Permitted use", in relation to a property, means the limited purposes for which the property may be used in terms of –

(a) any restrictions imposed by-

(i) a condition of title;

(ii) a provision of a town planning or land use scheme; or

(iii) any legislation applicable to any specific property; or

(b) any alleviation of any such restrictions;

"Place of public worship" means property used primarily for the purposes of congregation, excluding a structure that is primarily used for educational instruction in which secular or religious education is the primary instructive medium:

Provided that the property is –

(a) registered in the name of the religious community;
(b) registered in the name of a trust established for the sole benefit of a religious community; or
(c) Subject to a land tenure right.

"Property" means-

(a) immovable property registered in the name of a person or other legally constituted entity , including, in the case of a sectional title scheme, a sectional title unit registered in the name of a person or other legally constituted entity;
(b) a right registered against immovable property in the name of a person, excluding a mortgage bond registered against the property;
(c) a land tenure right registered in the name of a person or granted to a person in terms of legislation;
(d) public service infrastructure.

"Protected area" means an area that is listed in the register referred to in section 10 of the National Environmental Management: Protected Areas Act 2003.

"Public Benefits Organisation" means an organisation conducting specified public benefit activities as defined in the Act and registered in terms of the Income Tax act for tax reductions because of those activities.

"Public Service Infrastructure" means publicly controlled infrastructure (as defined in the MPRA) may not be rated on the first 30% of market value in terms of section 17(1)(a) of the MPRA.

"Public Service Purposes" in relation to the use of a property means property owned and used by an organ of state as per Section 1(2)(a), (b), (c), (d), (e) or (f) of the Act but excludes property contemplated in the definition of "public service infrastructure".

"Residential" means improved property that is:

Used predominantly (60% or more) for residential purposes, with not more than two dwelling units per property, and includes any adjoining property registered in the name of the same owner and used together with such residential property as if it were one property. (Any such grouping shall be regarded as one residential property for rate rebate or valuation reduction purposes), or

A unit registered in terms of the Sectional title Act, used predominantly (60% or more) for residential purposes, and includes any unit in the same Sectional Title Scheme registered in the name of the same owner which used together with the residential unit as if it were one property, for example a garage or domestic workers quarters. (Any such grouping shall be regarded as one residential property for rate rebate or valuation reduction purposes and for clearance application purposes), or

Owned by a share-block company and used predominantly (60% or more) for residential purposes, or

Retirement schemes and life right schemes used predominantly (60% or more) for residential purposes.

"Rural" means a property previously defined for rates purpose as agricultural but used predominantly for residential purposes.

"State-owned" means property owned by the State, which are not included in the definitions of public service infrastructure or public service purposes in the Act. These properties are classified as follows:

(a) State properties that provide local services;

(b) State properties that provide regional/municipal district-wide/metro-wide services;

(c) State properties that provide a provincial/national service.

4. PRINCIPLES

The following principles ensure that the municipality treats persons liable for rates equitably:

- Equity

  The municipality will treat ratepayers with similar properties in a like manner.

- Affordability

  The ability of a person to pay rates will be taken into account by the municipality. The municipality may provide relief measures through specified exemptions, reductions or rebates to the poor or indigent as defined in Council's Indigent policy.

The Municipality may:-

- levy different rate tariffs on different categories of properties,
- exempt a specific category of property from payment of rates,
- grant a rebate on, or a reduction in, the rate payment.

Council also pledges itself to limit each maximum annual increase, as far as is practicable, to the increase stipulated by National Treasury in the appropriate annual Budget Circular except when the approved integrated development plan of Council requires a greater increase or there has been a significant change in the valuation of a property.

5. CATEGORIES OF PROPERTY

Properties will be categorised as follows:-

Categories as per the Property Rates Policy

(a) Residential

(b) Industrial properties

(c) Business & Commercial Properties

(d) Minor Accommodation Establishments

(e) Major Accommodation Establishments

(f) Agricultural

(g) Rural used for-
- (i) residential purposes;
- (ii) non-residential purposes;
- (iii) minor accommodation establishments;
- (iv) major accommodation establishments.

(h) Properties owned by an organ of state used for public service purposes

(i) Municipal

(j) Public Open Spaces and Private Open Spaces

(k) Public service infrastructure

(l) Protected areas

(m) Properties owned by public benefit organizations and used for specified public benefit activities

(n) Properties used for multiple purposes

(o) Heritage areas

(p) Properties-
- (i) acquired through Provision of Land and Assistance Act, 1993 (No 126 of 1994) or the Restitution of Land Rights Act, 1994 (No 22 of 1994); or
- (ii) Subject to the Communal Property Associations Act, 1996 (No 28of 1996).

(q) Vacant Land-
- (i) Domestic;
- (ii) Business;
- (iii) Domestic Non-Urban.

(r) Any other category of property, as Council may from time to time identify, as may be determined by the Minister or Council with the concurrence of the Minister of Finance by Notice in the Gazette

Categories as defined in the General Valuation Roll with Category Numbers

(a) Improved Residential (8001)

(b) Light Industrial (8007)

(c) Business & Commercial Properties (8003)

(d) Accommodation 1-8 Rooms (8030)

(e) Accommodation 9+ (8031)

(f) Agricultural (8008)

(g) Rural used for-
- (i) Non-Urban Domestic (8051);
- (ii) Business (8003);
- (iii) Accommodation 1-8 Rooms (8030);
- (iv) Accommodation 9+ (8031).

(h) State (8007)/Vacant State (8041) Land

(i) Municipal Buildings (8004)

(j) Public Open Spaces (8006) and Private Open Spaces (8005).

(k) PSI (8011).

(l) Non-Urban Domestic (8051).

(m) Public Benefit Organization (8015)

(n) Non-Urban Domestic (8051)

(o) Non-Urban Domestic (8051)

(p) Properties-
- (i) Acquired through Provision of Land and Assistance Act, 1993 (No126of 1994) or the Restitution of Land Rights Act, 1994 (No 22 of 1994); or
- (ii) Subject to the Communal Property Associations Act, 1996 (No 28 of 1996).

(q) Vacant Land-
- (i) Domestic (8034, 8035, 8036)
- (ii) Business (8040)
- (iii) Domestic Non-Urban (8035)

6. EXCLUSION OF RATEABLE PROPERTY FROM THE PAYMENT OF RATES

The following properties will be excluded from the payment of rates:-

- Properties of which the municipality itself is the owner;
- Public service infrastructure;
- Rights registered against immovable property in the name of a person;
- Land owned by a registered religious body or organisation, and exclusively used as a place of assembly for public worship;
- Properties registered or recognised as private nature reserves in terms of relevant legislation, which are not developed or used for commercial, business, agricultural or residential purposes.

7. DIFFERENTIAL RATE TARIFFS

7.1 GENERAL

The following may be taken into consideration in determining differential rate tariffs:

- The use of the property;
- The rural area where the property is situated;
- The nature of the property including the impact of rates on its operations, e.g. agricultural properties used for farming purposes;
- The promotion of social and economic development of the municipality.

7.2 MULTI USE PROPERTIES

Property tax on properties used for multiple purposes will be determined by:

- Apportioning the market value of the property to the different purposes for which the property is used; and
- Applying the relevant rate tariff to the corresponding market value.

8. RELIEF MEASURES RELATED TO CATEGORIES OF PROPERTIES

NOTE: IN ADDITION TO WHAT IS SET OUT BELOW, COUNCIL MAY ANNUALLY DETERMINE A BASE VALUE WHICH WILL BE DEDUCTED FROM THE MARKET VALUE SHOWN ON THE VALUATION ROLL, IN COMPUTING THE RATE LIABILITY.

8.1 CRITERIA FOR EXEMPTIONS, REBATES AND REDUCTIONS

The following will be taken into consideration for the purpose of granting exemptions, rebates and reductions:

- Indigent status of the owner of a property;
- Nature, amount and source of income of the owner of a property. (e.g. pensions and social grants);
- Market value of residential property below a determined threshold;
- Social or economic conditions of the area where the owners of property are located e.g. an area declared by the national or provincial government to be a disaster area within the meaning of Disaster Management Act, 2002 (Act.57 of 2002);
- Retention and restoration of conservation worthy buildings;
- Owners of agricultural properties who are registered with the Receiver of Revenue as *bona fide* farmers;
- The need to preserve the unique natural environment that is Knysna;
- The requirements of the Property Rates Act no 6 of 2004.

9. SPECIAL CASES

9.1 PUBLIC BENEFIT ORGANISATIONS

Taking into account the effects of rates on Public Benefit Organisations performing a specific public benefit activity and registered in terms of the Income Tax Act for tax reduction because of those activities, it is proposed that Public Benefit Organisations (PBOs) performing the following specified public benefits activities will be granted a rebate of 75%:

- Welfare and humanitarian, such as providing disaster relief;
- Health Care, such as the counselling, care and treatment of persons (and their dependants) afflicted with HIV and AIDS.

9.2 PUBLIC SERVICE INFRASTRUCTURE

All public service infrastructure providing essential services to the community shall be exempted from the payment of rates.

9.3 STATE PROPERTIES

State properties (e.g. Schools, clinics, police stations etc.) that provide local services are exempted from rates to the extent of 20% of its value.

9.4 RELIGIOUS ORGANISATIONS

The official residence registered in the name of a religious community and occupied by a full time office bearer shall be exempt from rates.

10. REBATES AND GRANTS

Rebates for the following categories of properties may be considered:

(a) Residential properties (including flats and sectional title units)

(b) Agricultural properties

(c) Protected areas

(d) State owned properties

(e) Heritage areas

(f) Rural properties as defined

(g) Properties used for businesses purposes where the owner of the business is new to the municipality or the nature of the business is new to the municipality.

The rebate will be applied on a sliding scale as follows:

100% in year 1,
75% in year 2,
50% in year 3, after which the rebate falls away.

Over and above the determinations contemplated in section 17(1)(h) of the Act owners of property who depend on pensions or social grants for their livelihood may qualify for a rebate as determined by Council's Indigent policy.

11. CRITERIA FOR INCREASING RATE TARIFFS

11.1 The following will be taken into account for the purpose of increasing or decreasing of rates:

- Priorities of the municipality reflected in its Integrated Development Plan.
- The revenue needs of the municipality;
- Affordability of rates to ratepayers.

11.2 The municipality will consider the imposition of rates annually during the budget process.

11.3 All increases in property rates will be communicated to the community in terms of Section 21 A of the Municipal Systems Act (Act no. 32 of 2000).

12. REDUCTIONS IN MARKET VALUES

(1) A reduction in the municipal valuation as contemplated in section 15 (1) (b) of the Act, may be granted where the value of a property is affected by fire damage, demolition or flood.

(2) The reduction will be granted by the Chief Financial Officer only after a valuer has carried out an inspection of the property concerned.

13. LIABILITY FOR RATES

(1) Annual Payment Arrangements

By prior arrangement Knysna Municipality will recover the rates levied in a single amount, which is due on or before 30 September of the year in which it is levied. Applications must be submitted before 31 May for this option however the Chief Financial Officer may consider any applications after this date on merit.

(2) Method and time of payment

Knysna Municipality will recover the rates levied in periodic instalments of equal amounts over twelve months. The instalment is payable on or before the last working day of every month, following the month in which it has been levied. Interest will be charged at 1 % (per month) above the prime interest rate for late payments received on outstanding amounts.

(3) Recovery of arrear rates from tenants, occupiers and agents

If an amount due for rates levied in respect of a property is unpaid after the day determined, the municipality may recover the amount in whole or in part from a tenant or occupier of the property. The amount the municipality might recover from the tenant or occupier of the property is limited to the amount of the rent or other money due and payable by the tenant or occupier to the owner of the property. Any amount the municipality recovers from the tenant or occupier of the property may be set off, by the tenant or occupier, against any money owed by the tenant or occupier to the owner.

The municipality may recover the amount due for rates from an agent of the owner after it has given written notice to that agent or person. The amount the municipality may recover from the agent or other person is limited to the amount of rent received by the agent or person, less the commission due to that agent or person, subject to the Estate Agents Act, 1976 (Act No. 112 of 1976). The agent or other person must, on request by the municipality, furnish the municipality with a written statement specifying all payments for rent on the property received by that agent or person during a period determined by the municipality.

(4) Ownership

Properties, which vest in the municipality during developments, i.e. open spaces and roads, will be transferred at the cost of the developer to the municipality. Until such time, rates levied will be for the account of the developer.

(5) **Interim Valuation Debits**

In the event that a property has been transferred to a new owner and rates emanating from a supplementary valuation become due and payable, the previous owner as well as the new owner will be held jointly and separately responsible for the settlement of the interim rates account.

(6) **Developments**

The developer of a property will be liable for all rates raised on the development until the individual units are transferred to the new owners including properties which must be transferred to the municipality in terms of the land use ordinance and development agreement.

(7) **Clearance Certificate**

Rates Clearance Certificates will be valid until 30 June if monies have been paid in full until such date. However, should attorneys request to extend the certificate for 120 days beyond this date, and this extension of time surpasses the date of 30 June, the new year's rates become payable in full.

No Clearance Certificates will be issued if there are any outstanding amounts on a seller's municipal account.

(8) **Levying of rates on property in sectional title schemes**

A rate on property, which is subject to a sectional title scheme, will be levied on the individual sectional title units in the scheme. However, in valuing the sectional title unit there shall be included in that value the owners proportionate share of the value of the common use areas such as gardens, roads, swimming pools, passages etc.

14. COSTS OF EXEMPTIONS, REBATES AND REDUCTIONS

(1) During the budget process the Chief Financial Officer must inform Council of all costs associated with exemptions, rebates and reductions.

(2) Provision must be made on the operating budget for:

(a) the full potential income associated with property rates; and

(b) the full costs associated with exemptions, rebates and reductions.

15. LOCAL, SOCIAL AND ECONOMIC DEVELOPMENT

(1) The municipality may grant rebates to organisations that promote local, social and economic development based on the criteria determined in its local, social and economic development policy(s). The following criteria will apply:

(a) job creation in the municipal area;

(b) social upliftment of the local community; and

(c) creation of infrastructure for the benefit of the community.

(2) Rebates may be granted up to 100% of the rates payable and must be phased out within 3 years from the date that the rebate was granted for the first time.

16. REGISTER OF PROPERTIES

The Chief Financial Officer must cause to have drawn up and maintain a register of properties as contemplated as section 23 of the Act.

17. NOTIFICATION OF RATES

(1) Council will give notice of all rates approved at least 30 days prior to the date that the rates become effective. Accounts delivered after the 30 days' notice will be based on the new rates.

(2) A notice stating the purport of the Council resolution, date on which the new rates shall become operational will be displayed by the municipality at places installed for that purpose.

18. CORRECTION OF ERRORS AND OMISSIONS

Where the rates levied on a particular property have been incorrectly determined, whether because of an error or omission on the part of the municipality or false information provided by the property owner concerned or a contravention of the permitted use to which the property concerned may be put, the rates payable shall be appropriately adjusted for the period extending from the date on which the error or omission is detected back to the date on which rates were first levied in terms of the current valuation roll. In addition, where the error occurred because of false information provided by the property owner or as a result of a contravention of the permitted use of the property concerned, interest on the unpaid portion of the adjusted rates payable shall be levied at the maximum rate permitted by prevailing legislation.

19. FREQUENCY OF VALUATIONS

The municipality shall prepare a new valuation roll from time to time and a supplementary valuation roll at least once a year.

20. SHORT TITLE

This policy is the Property Rates Policy of the Knysna Municipality.

KNYSNA MUNICIPALITY

KNYSNA
Municipality Munisipaliteit uMasipala

TARIFF POLICY

Effective from 1 July 2016

INDEX

1. OBJECTIVE

The objectives of this policy are to ensure that-

- All consumers within a specific category are treated equally and reasonably.
- The income base of the municipality is optimally safeguarded by only approving exemptions, reductions and rebates that are reasonable and affordable.
- The principles supporting the Councils Mission, Vision and IDP are supported.
- Municipal tariffs are set in a manner that promotes the provision of reliable, sustainable and affordable services to all.

2. DEFINITIONS

In this tariff policy, unless the context otherwise indicates –

"availability tariff" means where properties are not connected to the municipal infrastructure but can reasonably be connected to the service;

"basic charge" also referred to as a minimum charge, is the recovery of the distribution and billing-related costs, which include having a distribution system in place, plus the cost of the meter, servicing and reading the meter, mailing the bills and maintaining customer records;

"business" means the activity of buying, selling or trading in goods or services and includes any office or other accommodation on the same erf, the use of which is incidental to such business, with the exclusion of agriculture, farming or, inter alia, any other business consisting of cultivation of soils, the gathering in of crops or the rearing of livestock or consisting of the propagation and harvesting of fish or other aquatic organisms;

"commercial or industrial consumers" means industrial undertakings, factories, warehouses, workshops, scrap yards, wine cellars, abattoirs, dairy processing plants, fish markets and suchlike consumers;

"community service" means services in respect of which the tariffs are set at a level that the costs of the services are not recovered fully from public service charges and are of a regulatory nature;

"consumer" means the owner of a premises, regardless of whether it is domestic, commercial, industrial or any other type and who has entered into an agreement with the Municipality for the supply of a service. A consumer must only be the owner and not a tenant or lessee;

"the council" means Knysna Municipal Council, and "municipal council" shall have a corresponding meaning;

"domestic consumers" means residential properties, group housing, town houses, semi-detached houses and suchlike properties;

"due date"–

(a) in relation to accounts payable monthly on a recurring basis, the last day of the month which follows on the month during which an account is rendered;

(b) in relation to accounts payable annually, 31st July unless otherwise provided by any other law; and

(c) in all other instances, as and when demand for payment is made by the Municipality;

"economic services" means services in respect of which the tariffs are set at a level that the total costs of the services are recovered from customers;

"educational institutions" means schools and suchlike institutions;

"fixed costs" means costs which do not vary with consumption or volume produced;

"indigent households" means households that are registered at the municipality as such and meet the municipality's criteria in terms of its credit control and debt collection policy and occupying a property within the jurisdiction of the municipality and "poor households" shall have a corresponding meaning;

"MFMA" means the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003);

"minimum charge" shall refer to the minimum amount payable by the consumer in respect of a particular service irrespective of the extent to which the service is used during any given period of time.

"MSA" means the Local Government: Municipal Systems Act, 2000 (Act no 32 of 2000);

"owner" in relation to a property, means the person in whose name the property is registered in the Deeds Registry and such owner's successors;

"public benefit organisations" means public benefit organizations as defined in Section 30 of the Income Tax Act No 58 of 1962;

"resident" means a person who ordinarily resides in the municipal area;

“service charge” means the charged levied for the provision of a service on a daily, monthly or annual basis;

“special agreements” means special tariff agreements entered into with categories of consumers making significant economic contributions to the community and that create job opportunities;

“sport and recreation facilities” means properties used exclusively for sport and recreation purposes including school sport fields which are metered separately for water and electricity consumption;

“total cost” means the sum of all fixed and variable costs associated with a service;

“trading services” means services referred to in paragraph (7)(a) and in respect of which the tariffs are set at a level that the Council makes a profit on the delivery of the services;

“units consumed” means the number of units consumed of a particular service and are measured in terms of the tariff structure reflected in paragraph 9;

“variable costs” means costs that vary with consumption or volume produced;

“VAT” means Value-Added Tax in terms of the Value-Added Tax Act, 1991, as amended.

3. ABREVIATIONS

Kg – Kilogram
Kl – Kilolitre, 1000 litres
kVa – KiloVolt Ampere
kWh – Kilowatt Hour
m³ - Cubic meter

4. PURPOSE OF THIS POLICY

(1) The Knysna Municipality wishes to achieve the following objectives by adopting this tariff policy:

(a) To comply with the provisions of section 62 (1)(f) of the MFMA.
(b) To comply with the provisions of section 74 of the MSA.
(c) To prescribe procedures for calculating tariffs where the municipality wishes to appoint service providers in terms of section 76(b) of the MSA.
(d) To give guidance to the Executive Mayor regarding tariff proposals that must be submitted to the council annually during the budget process.

5. TARIFF PRINCIPLES

(1) In setting its annual tariffs the council shall at all times take due cognisance of the tariffs applicable elsewhere in the economic region, and of the impact which its own tariffs may have on local economic development.

(2) The Municipality wishes to record that the following tariff principles will apply:

(a) Service tariffs imposed by the municipality shall be viewed as user charges and shall not be viewed as taxes, and therefore the financial ability of the relevant user of the services to which such tariffs relate, shall not be considered as a relevant criterion (except in the case of the relief measures for poor households and deserving categories of users approved by the municipality from time to time).

(b) The municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal region.

(3) Tariffs for the two major services rendered by the municipality, namely:

(a) electricity
(b) water

shall as far as possible recover the expenses associated with the rendering of each service concerned. The tariff, which a particular consumer or user pays shall therefore be directly related to the standard of service received and the quantity of the particular service used or consumed.

(4) The municipality shall, as far as circumstances reasonably permit, ensure that the tariffs levied in respect of the two major services generate an operating surplus each financial year of 10% or such percentage as the council may determine at the time that the annual operating budget is approved. Such surpluses shall be applied in relief of property rates and for the partial financing of general services or for the future capital expansion of the service concerned, or both.

(5) In line with the principles embodied in the Constitution and in other legislation pertaining to local government, the municipality may differentiate between different categories of users and consumers in regard to the tariffs which it levies. Such differentiation shall, however, at all times be reasonable, and shall be fully disclosed in each annual budget.

(6) The municipality's tariff policy shall be transparent, and the extent to which there is cross-subsidisation between categories of consumers or users shall be disclosed to users.

(7) The municipality shall ensure that its tariffs shall be readily understandable by all users affected by the tariff policy.

(8) The municipality undertakes to render its service costs effectively in order to ensure the best possible cost of service delivery.

(9) The consumption of such services shall be properly metered by the municipality, and meters shall be read, wherever circumstances reasonably permit, on a monthly basis. The charges levied on consumers shall be proportionate to the quantity of the service which they consume.

(10) The municipality shall levy monthly availability charges for the services concerned, and these charges shall be fixed for each type of property as determined in accordance with the detailed policies set out below. Generally, consumers of water and electricity shall therefore pay two charges: one, relatively minor, which is unrelated to the volume of consumption and is levied because of the availability of the service concerned; and another directly related to the consumption of the service in question.

(11) In considering the costing of its water, electricity and sewerage services; the municipality shall take due cognisance of the high capital cost of establishing and expanding such services, and of the resultant high fixed costs, as opposed to variable costs of operating these services. The municipality therefore undertakes to plan the management and expansion of the services carefully in order to ensure that both current and reasonably expected future demands are adequately catered for, and that demand levels which fluctuate significantly over shorter periods are also met. This may imply that the services may at times or for certain periods operate at less than full capacity, and the costs of such surplus capacity must also be covered in the tariffs which are annually levied.

(12) The municipality shall, by adopting what is fundamentally a two-part tariff structure, namely a fixed minimum charge coupled with a charge based on consumption, endeavour to address the demands which both future expansion and variable demand cycles and other fluctuations will make on service delivery.

(13) Part of the municipality's tariff policy for electricity services will be to ensure that those consumers who are mainly responsible for peak demand, and therefore for the incurring by the municipality of the associated demand charges from Eskom, will have to bear the costs associated with these charges. Such consumers shall therefore pay the relevant demand charge as well as a service charge directly related to their actual consumption of electricity during the relevant metering period.

(14) A property used for multiple purposes must for purposes of these tariffs be assigned to a category determined by the council for properties used for a purpose corresponding with the dominant use of the property if the municipality cannot readily make an apportionment in relation to the services concerned and the categories of users.

(15) In order to provide the municipality with appropriate security for payment of amounts owing to it from time to time for services rendered, the Council shall impose a system of deposits payable by customers. The deposits shall be set with due regard to the potential financial risk associated with the amounts owing from time to time. The level of the deposits shall be revised annually depending on the defaults instances.

6. CATEGORIES OF CONSUMERS

(1) Separate tariff structures may be imposed for the following categories of consumers (which the council may change):

(a) domestic consumers;
(b) commercial consumers;
(c) industrial consumers;
(d) agricultural consumers;
(e) municipalities;
(f) consumers with whom special agreements were made;
(g) consumers in certain geographical areas;
(h) sport and recreation facilities;
(i) educational institutions; and
(j) public benefit organisations and suchlike institutions.

(2) Where substantially different demands are made on the infrastructure to provide a service to a specific group of users within a category or the standard of services required by such users, the Council may, after having considered a report by the Municipal Manager or the relevant Director, determine differentiated tariffs for the different consumers within the specific category.

(3) The differentiation must be based on one or more of the following elements; infrastructure costs, volume usage, availability and service standards.

(4) If, for purposes of determining the tariff applicable to a particular user or category of users, the user or category of users has not specifically by definition been included under a defined category of users, the Chief Finance Officer shall, by applying the closest match principle, determine the category under which the user or category of users fits in best taking into account the nature of the service concerned and the user or category of users involved.

7. SERVICE AND EXPENDITURE CLASSIFICATIONS

Service classification

The Chief Financial Officer may, subject to the guidelines provided by the National Treasury and the Executive Mayoral Committee of the council, make provision for the following classification of services:

(a) Trading services

Water.
Electricity.

(b) Economic services

Solid waste.

Waste water.

(c) Community services

(i) Air pollution.
(ii) Fire fighting services.
(iii) Local tourism.
(iv) Town planning.
(v) Municipal public works, only in respect of the needs of municipalities in the discharge of their responsibilities and to administer functions specially assigned to them under the Constitution or any other law.
(vi) Stormwater management system in built-up areas.
(vii) Trading regulations.
(viii) Fixed billboards and the display of advertisements in public places.
(ix) Cemeteries.
(x) Control of public nuisances.
(xi) Control of undertakings that sell liquor to the public.
(xii) Facilities for accommodation, care and burial of animals.
(xiii) Fencing and fences.
(xiv) Licensing and control of undertakings that sell food to the public.
(xv) Local amenities.
(xvi) Local sport facilities.
(xvii) Municipal parks and recreation.
(xviii) Municipal roads.
(xix) Noise pollution.
(xx) Pounds.
(xxi) Public places.
(xxii) Street trading/street lighting.
(xxiii) Traffic and parking.
(xxiv) Building control.
(xxv) Licensing of motor vehicles and transport permits.
(xxvi) Nature reserves.

(b) Subsidised services

(i) Libraries and museums.
(ii) Proclaimed roads.
(iii)Street lights.

Expenditure classification

Expenditure will be classified in the following categories:

(a) Subjective classification:

(i) Salaries, wages and allowances;
(ii) Bulk purchases;
(iii) General expenditure;
(iv) Repairs and maintenance;
(v) Capital charges (interest and redemption)/depreciation;
(vi) Contribution to fixed assets;
(vii) Contribution to funds:

(a) Bad debts;
(b) Working capital; and
(c) Statutory funds.

(viii) Contribution to reserves;
(ix) Gross expenditure;
(x) Less charge-out;
(xi) Net expenditure;
(xii) Income; and
(xiii) Surplus/Deficit.

(b) Objective classification:

(i) Cost centres will be created to which the costs associated with providing the service can be allocated:
(ii) Department.
(iii) Section/service.
(iv) Division/service.
(v) The subjective classification of expenditure each with a unique vote will be applied to all cost centres.

Cost elements

(a) The following cost elements will be used to calculate the tariffs:

(i) Fixed costs which consist of the capital costs (interest and redemption) on external loans as well as internal advances and or depreciation whichever are applicable and any other costs as determined by the Council from time to time.
(ii) Variable cost: This includes all other variable costs.
(iii) Total cost: consist of the fixed cost and variable cost.

8. TARIFF TYPES

In determining the type of tariff applicable to the type of service the municipality shall make use of the following options or a combination of the same.

Single tariff:

This tariff shall consist of a cost per unit consumed.

Cost related two to three part tariff: electricity

This tariff shall consist of two to three parts. Management, capital, maintenance and operating costs will be recovered by grouping certain components together e.g. management, capital and maintenance costs may be grouped together and be recovered by a fixed charge, independent of consumption for all classes of consumers, while the variable costs may be recovered by a unit charge per unit consumed. Three part tariffs will be used to calculate the tariff for electricity and to provide for maximum demand and usage during limited demand.

Inclining block tariff: electricity

This tariff is based on consumption levels being categorised into blocks, the tariff being determined and increased as consumption levels increase. This tariff will only be used to subsidised free basic services and to prohibit the exorbitant use of a commodity. The first step in the tariffs will be calculated at break-even point. Subsequent steps will be calculated to yield profits and to discourage excessive use of the commodity.

Declining block tariff: electricity

This tariff is the opposite of the inclining block tariff and decreases as consumption levels increase. The first step will be calculated by dividing the fixed and variable cost and profit, determined by council from time to time, by the volume consumed. This tariff will only be used for special agreements.

Regulating tariff: electricity

This tariff is only of a regulatory nature and the municipality may recover the full or a portion of the cost associated with rendering the service.

Time-of-use tariff: electricity

This tariff is based on fixed charges and seasonally and time differentiated energy and demand charges.

9. TARIFF STRUCTURES AND METHODS OF CALCULATIONS

Calculation of Tariffs for Major Services

In order to determine the tariffs, to be charged for the supply of water and electricity, the municipality shall endeavour to include at least the operational costs of the undertakings concerned.

To determine the **basic or minimum charge** the following categories within the operating budget will be included as a basis for calculation.

Capital costs (interest on loans)
Maintenance of infrastructure and other fixed assets
Salary costs
Depreciation expenses

To determine the **unit charge** the following categories within the operating budget will be used as a basis for calculation

Cost of bulk purchases in the case of electricity
Distribution costs (General Expenses)
Distribution losses
Administration and service costs, including:

(i) service charges levied by other departments such as finance, human resources and legal services;
(ii) reasonable general overheads, such as the costs associated with the office of the municipal manager;
(iii) adequate contributions to the provisions for bad debts and obsolescence of stock;
(iv) all other ordinary operating expenses associated with the service concerned including, in the case of the electricity service, the cost of providing street lighting in the municipal area.

The intended surplus to be generated for the financial year, such surplus to be applied:
(i) as an appropriation to capital reserves; and/or
(ii) generally in relief of rates and general services; and/or
(iii) the cost of approved indigent relief measures.

The municipality shall provide the first 50kWh of electricity per month to prepaid consumers on an electrification scheme 20 Amp circuit breaker. The municipality shall further consider relief in respect of the tariffs for sewerage, water and refuse removal for such registered indigents to the extent that the council deems such relief affordable in terms of each annual budget.

Multiple step inclining block tariffs are utilised to enable the consumer to exercise control over the cost to themselves.

The following tariff structure will, where possible, be used to determine tariffs:

Water

(a) Fixed costs plus rising block tariffs will apply to all consumers excluding:

(i) Industrial and commercial consumers.
(ii) Schools.
(iii) Sports Bodies.
(iv) Old Age Homes.
(v) Municipal Buildings.
(vi) Farms.

The following blocks will apply:

Normal Domestic Steps
0 – 6 Kl
7 – 10 Kl
11 – 20 Kl
21 – 30 Kl
31 – 40 Kl
Greater than 40 Kl

(b) Method of calculation
   (i) Domestic consumers using less than the applicable minimum per month will receive the appropriate 6 Kl free water.
   (ii) The fixed costs of the service shall consist of the costs indicated as such by the council.
   (iii) The number of users and estimated volume consumed per category will be used to determine the fixed tariff per category.
   (iv) Where properties are not connected to the water service but can reasonably be connected to the service an **availability tariff** will be payable.
   (v) Where council decide to make a profit on the service the profit will be added to the fixed and variable cost before tariffs are calculated.

(c) Drought tariffs

i. Drought Situation Stage 1

An additional 50% of the approved water consumption tariff will be applied only if **AkkerKloof** Dam is at 60% or the river flow is at 200 litres per second and when consumption is more than 20kl per month

ii. Drought Situation Stage 2

An additional 75% of the approved water consumption tariff will be applied only if **AkkerKloof** Dam is at 40% or the river flow is at 200 litres per second and when consumption is more than 20kl per month

iii. Drought Situation Stage 3

An additional 100% of the approved water consumption tariff will be applied only if **AkkerKloof** Dam is at 30% or the river flow is at 200 litres per second and when consumption is more than 20kl per month

Electricity

(a) Tariff structure
   (i) Maximum demand (kVA) plus fixed tariff plus kWh consumed.
   (ii) Fixed tariff plus kWh consumed.
   (iii) Unit tariff (KWh consumed) (Pre-payment meters).

(b) Method of calculation
   (i) Guidelines issued by the National Electricity Regulator from time to time will form the basis of calculating tariffs.

(ii) To recover the capital cost of supplying electricity through a fixed charge will make electricity unaffordable to many low consumption users. Cross subsidisation between and within categories of consumers will be allowed based on the load factors of the categories and consumers within the category. Portions of the fixed costs will be recovered through an energy or time-of-use charge. To apply the abovementioned principle the cost allocation basis, cost groupings, tariff components and tariff types reflected in the following tables will be used.

Cost groupings	Underlying cost-allocation bases		
	Capacity costs: expressed as Rands/kVa /month	Variable costs: expressed as Cents/kWh	Customer specific costs: expressed as rands /customer/month
Purchase cost	√	√	
Capital costs	√	√	√
Support costs	√		√

	Tariff components			
Tariff types	Fixed charge (rands/customer/ month)	Energy charge (cents/kWh)	Time-of-use energy charge expressed as (cents/kWh)	Capacity charge expressed as (rands/kVa/ month)
One-part single energy rate tariff (Lifeline tariff)		√		
Two-part tariff	√	√		
Two-part time-of-use tariff	√		√	
Three-part tariff	√	√		√
Three-part time-of-use	√		√	√

(iii) The one-part single energy rate tariff:

1. For the one-part single energy rate tariff, all costs are expressed in a single cents/kWh charge. The recommended methodology for allocating costs into this tariff is as follows:
2. The rands/kVa/month cost must be allocated into a cents/kWh charge through consideration of the average load factor of the

types of customer who are likely to use the one-part single energy rate tariff.

3. The rands/customer/month fixed cost should also be allocated into the cents/kWh charge and allocated to the kWh purchase costs in such a way as to ensure that at a level of monthly consumption of 400 kWh, the full amount of the fixed costs would have been recovered through the cents/kWh charge.

(iv) The two-part tariff:

1. The rands/kVa/month charge must be allocated into a cents/kWh charge through consideration of the average load factor of the types of customer who are likely to choose the two-part tariff. This reallocated charge must then be added to the kWh purchase charge.
2. The rands/customer/month charge is not reallocated into other tariff elements.
3. The tariff then consists of a fixed monthly charge plus a variable charge related to metered kWh consumption.

(v) The two-part time-of-use tariff:

1. The rands/kVa/month charge must be reallocated into different time-of-use cents/kWh charges through consideration of the load curve of the customer in relation to the load curve of the supplier. Such reallocated charges must then be added to the kWh purchase charges, as appropriate.
2. The rands/customer/month charge is not reallocated.

(vi) The three-part tariff:

1. The rands/kVa charge recovers the capital cost elements. Some of this cost must be reallocated into different tariff elements.
2. The cents/kWh charge therefore recovers the full variable costs as well as a portion of the reallocated rands/kVa costs.
3. The rands/customer/month charge is not reallocated.

(vi) The three-part time-of-use tariff:

1. As with the standard three-part tariff, a portion of the rands/kVa/month charge is reallocated into the various time-of-use cents/kWh charges. The amount of the reallocation takes place with regard to the customer's load factor. The time-variation of the capacity costs is taken into account in the reallocation of the rands/kVa charge into the various time-of-use cents/kWh charges.
2. The cents/kWh charge therefore recovers the full variable costs as well as a portion of the reallocated rands/kVa charges.
3. The rands/customer/month charge is not reallocated.

Where council decides to make a profit on the service the profit will be added to the fixed and variable cost before tariffs are calculated.

Where properties are not connected to the electricity service but can reasonably be connected to the service an availability tariff will be payable. The Town Electrical Engineer will annually determine the tariff.

Solid Waste (Refuse removal)

(a) Tariff structure

- (i) Plastic bags per week (volume 85 litre per bag)
- (ii) Containers per week / Wheelie Bin (volume 240 litre)
- (iii) Bulk Container (volume 1100 litre)
- (iv) Bulk Container (volume 770 litre)
- (v) Tonnage charge

(b) Method of calculation

- (i) The costs per unit of measurement will be determined by dividing the total costs of the service by the total volume of refuse disposed of during the year. The total cost of the service includes the removal cost plus the operating cost associated with the service.
- (ii) The cost associated with the removal of bulk containers will be determined by calculating how many of the smallest removal units will be absorbed by a specific container.
- (iii) A monthly rental for the usage of a bulk container will be determined by discounting the purchase price of a bulk container over 5 years at an interest rate applicable to municipal loans. An additional 15% will be charged as an administration charge.
- (iv) After council has consulted with owners or occupiers of commercial and industrial undertakings which do not make use of the standard black bags or mass containers, tariffs will be determined based on the estimated volume that will be removed per month.
- (v) Costs for once-off removals will be calculated per truckload.
- (vi) Private dumping at the disposal site will be allowed after a tariff based on the estimated volume of the dumping has been paid.
- (vii) A refuse removal tariff will be raised and is payable by all owners or occupiers of each developed property connected to the water and electricity distribution network of the council or any other service provider or those who have applied to be connected whether such owner or occupier uses the refuse removal service or not or those who are not connected to the distribution networks to whom a refuse removal service is rendered on request.
- (viii) No refuse removal tariffs will be raised in areas where council has not introduced a refuse removal service.

(c) Reallocation of consumers due to excessive consumption.

Where a consumer is found exceeding the allowed tariff applicable to their allowed category for a period exceeding three months;

1. They will be moved to the appropriate corresponding tariff from the beginning of the current financial year.
2. They may approach Council for reinstatement to the original tariff after a period of 12 months.

Waste Water (Sewerage/emptying of conservancy tanks)

(a) Tariff structure

(i) Number of properties connected to the sewerage reticulation network.

(ii) Volume of tanker vehicle.

(b) Method of calculation

(i) A fixed basic charge will be payable for each property connected to the sewerage reticulation network.

1. Domestic
2. Business

(ii) Where properties are not connected to the sewerage network but can reasonably be connected to the service an **availability tariff** will be payable. The tariff will be calculated by adding a surcharge to the fixed costs applicable to connected consumers per category.

(iii) An effluent charge will be charged to promote more efficient use of council's sewerage infrastructure.

(iv) The cost of emptying conservancy tanks will be based on the volume disposed, including an additional charge per kilometre for areas in excess of 10 kilometres from the Treatment Works.

(v) For the operation of the septic tank effluent drainage system [STED] in Smutsville and Sizamile an annual sewerage charge shall be levied for the effluent discharged into the Council's sewer system.

(vi) In respect of the vacuum tanker removals from the STED system no charge shall be levied by Council for such service.

Calculation of minor tariffs

(i) All minor tariffs (being tariffs in respect of services and facilities other than the major services referred to in paragraph 3(4)) shall be approved by the council in each annual budget, and shall, when deemed appropriate by the council, be subsidised by property rates and general revenues, particularly when the tariffs will prove uneconomical when

charged to cover the cost of the service concerned, or when the cost cannot accurately be determined, or when the tariff is designed purely to regulate rather than finance the use of the particular service or amenity.

(ii) All minor tariffs over which the municipality has full control, and which are not directly related to the cost of a particular service, shall annually be adjusted at least in line with the prevailing consumer price index, unless there are compelling reasons why such adjustment should not be effected.

(iii) The following services shall be considered as subsidised services, and the tariffs levied shall cover 50% or as near as possible to 50% of the annual operating expenses budgeted for the service concerned:

a) burials and cemeteries
b) rentals for the use of municipal sports facilities

(iv) The following services shall be considered as community services, and no tariffs shall be levied for their use:

a) municipal museum and art gallery
b) disposal of garden refuse at the municipal tip site
c) municipal reference library
d) municipal lending library (except for fines set out below)

(v) The following services shall be considered as economic services, and the tariffs levied shall cover 100% or as near as possible to 100% of the budgeted annual operating expenses of the service concerned:

a) maintenance of graves and garden of remembrance (cremations)
b) housing rentals
c) rentals for the use of municipal halls and other premises (subject to the proviso set out below)
d) building plan fees
e) sales of plastic refuse bags
f) sales of refuse bins
g) cleaning of stands
h) new connection fees: electricity, water, sewerage
i) photostat copies and fees
j) clearance certificates for purposes of property transfers
k) town planning fees.

(vi) The following charges and tariffs shall be considered as regulatory or punitive, and shall be determined at a reasonable level (with due regard to direct and indirect costs involved, need for discouraging undesirable practices and advantages enjoyed by user) in each annual budget:

a) fines for lost or overdue library books

b) advertising sign fees
c) pound fees
d) disconnection and reconnection fees: electricity, water
e) penalty and other charges imposed in terms of the approved policy on credit control and debt collection
f) penalty charges for the submission of dishonoured, stale, post-dated or otherwise unacceptable cheques.

(v) Market-related rentals shall be levied for the lease of municipal properties defined as investment assets.

(vi) In the case of rentals for the use of municipal halls and premises, if the municipal manager is satisfied that the halls or premises are required for non-profit making purposes and for the provision of a service to the community, the municipal manager may allow a discount of 50% on the rental that would otherwise have applied.

(vii) The municipal manager shall determine whether an indemnity or guarantee must in each instance be lodged for the rental of municipal halls, premises and sports fields, and in so determining shall be guided by the likelihood of the municipality sustaining damages as a result of the use of the facilities concerned.

(viii) Tariff structure:

a) The unit of measurement as reflected in the separate list of tariffs approved annually will be used to determine regulatory community and subsidised services.

(ix) Overdue Amounts

a) The municipality shall be entitled to levy an administration fee on a month to month basis on all overdue accounts subject to such maximum amount per month as the Council may determine.

b) The municipality may at its discretion enter into a repayment schedule with a consumer in respect of overdue amounts, which repayment schedule will be incorporated into an acknowledgment of debt in favour of the municipality and signed by the consumer. Upon signature of such an acknowledgment of debt, the consumer will become liable for payment of an administration fee in such amount as the Council may determine for attending on the debtor and entering into the acknowledgment of debt with the consumer.

10. CAPITAL CONTRIBUTIONS

For purposes of these tariffs the under mentioned words and expressions shall have the following meanings assigned to them unless the context otherwise requires:

"capital contributions", the tariffs payable in respect of the water, electricity, sewerage, storm water, roads and refuse removal infrastructure of the municipality and which amounts exclude amounts payable towards the operational and maintenance costs of such infrastructure;

11. NOTIFICATION OF TARIFFS, FEES AND SERVICE CHARGES

(1) The tariffs will be approved as part of the annual budget.

(2) The tariffs will come into effect as and when determined by the Council.

12. IMPLEMENTATION OF THE POLICY

(1) The principles contained in this policy will be reflected in the various budget proposals submitted to council on an annual basis, service by-laws as promulgated and adjusted by Council from time to time and the tariff by-laws referred to in section 75 of the Systems Act.

(2) The Council may determine conditions applicable to community service of a regulatory nature. These conditions will be reflected in the standing orders of Council.

13. ADJUSTMENT OF ACCOUNTS

(1) Where incorrect debits were raised, the accounts under query will be rectified as necessary.

14. SHORT TITLE

(1) This policy is called the Knysna Municipality Tariff Policy.

KNYSNA MUNICIPALITY

INDIGENT SUPPORT AND SOCIAL REBATE POLICY

Effective from 01 July 2017

Indigent Support and Social Rebate Policy

INDEX

1. **DEFINITIONS**

"Act" The Local Government: Municipal Systems Act 2000 (Act No 32 of 2000) as amended from time to time.

"Council" the municipal council of Knysna Municipality.

"Financial year" a 12 month period from 1 July to 30 June of the following year.

"Household" all the occupants of a house or property living as a family.

"Household income" the income accruing to all members of the household permanently residing at that address. It includes income of spouses.

"Indigent person" a person whose household income does not exceed the minimum household income as predetermined by Council.

"Municipal services" those services provided by the municipality, such as the supply of water, electricity, refuse removal, sewerage treatment for which service charges are levied.

"Occupier" any person who occupies any property or part thereof, without taking cognisance of the title in which he or she occupies the property.

"Property" any portion of land, of which the boundaries are determined, within the jurisdiction of the municipality.

Indigent Support and Social Rebate Policy

Section 97(1)(c) of the Municipal Systems Act requires municipalities to formulate an Indigent Policy that is consistent with Council's rate and tariff policies and also meets the requirements of S152 of the Constitution.

2. INTRODUCTION

In terms of Section 74(i) of the Act, the Council should at least take into consideration the extent of subsidisation of tariffs for poor households. Arising from the above, Council needs to approve an Indigent Support Policy. This policy must provide procedures and guidelines for the subsidisation of rates and basic services and tariff charges to its indigent households.

The Council accepts responsibility for the rendering of services in terms of Schedules 4 and 5 of the Constitution as well as other services which may be delegated by National and Provincial Government. The Council will endeavour to render a basic level of services necessary to ensure an acceptable and reasonable quality of life and which takes into account health and environmental considerations.

3. THE OBJECTIVES OF THIS POLICY

The objectives of the Indigent Support and Social Rebate Policy are to ensure the following:

2.1 The provision of basic services to the community in a sustainable manner, within the financial and administrative capacity of the Council; and

2.2 To provide procedures and guidelines for the subsidisation of rates and basic service charges to its indigent households, using the Council's budgetary provisions received from National Government, according to prescribed policy guidelines.

2.3 Council also recognises that many of the residents can simply not afford the cost of full provision and for this reason Council will endeavour to ensure affordability through:

2.3.1 Setting rates and tariffs in terms of the Council's Rates and Tariff Policy, which will balance the economic viability of continued service delivery; and

2.3.2 Determining appropriate service levels.

4. **RESPONSIBILITY/ACCOUNTABILITY**

Council has the overall responsibility for compiling, approving and implementing the Indigent Support and Social Rebate Policy.

5. **INDIGENT SUPPORT AND SOCIAL REBATE POLICY PRINCIPLES**

The following should be the guiding principles in implementing the Indigent Support Policy:

5.1 The Indigent Support and Social Rebate Policy is in accordance with Local Government Municipal Systems Act, 2000, Local Authorities Ordinance No. 25 of 1974 and all other amending or related legislation.

5.2 Relief will be provided by Council to registered residential owners and/or consumers of services.

5.3 The Council must, wherever possible, ensure that any relief is constitutional, practical, fair, equitable and justifiable to avoid alienating any group of households. There should be no differentiation whatsoever of any residential consumers. It should only differentiate in the level of service rendered.

5.4 The subsidy for minimum service level should not result in the creation of a massive bureaucratic administration that would not be cost effective to implement e.g. when more than 25% of the population/consumers require/qualify for subsidisation.

5.5 Differentiation must be made between those households who cannot afford to pay for basic services and those who simply do not want to pay for these services.

5.6 The payment for services should be affordable to all consumers.

5.7 This Policy should be for a financial year, and reviewed annually.

5.8 Council may review and amend the qualification for indigent support and social rebates, annually during the budget cycle.

5.9 The collective or joint gross income of each household will be taken into account. The household income must be correctly reflected on the application form requesting indigent support or a social rebate, which may be withdrawn if the income is found to have been incorrectly submitted.

5.10 The residents must formally apply on the prescribed application forms for the relief and will qualify for the indigent support or social rebate according to

these prescribed criteria/principles laid down by Council. After the application form has been completed, an effective and efficient evaluation system will be used in order to obtain the outcome within a reasonable time determined by Council.

5.11 If a person/household is found to be indigent, he/she will be registered on a database linked to the debtors system and to Council's Local Economic Development system.

5.12 The onus is on the recipient to inform the Council of any change in his/her status or personal household circumstances.

5.13 Punitive measures will be imposed on persons who misuse the system and provide incorrect information. These measures are:

5.13.1 A person will forfeit his or her status as a registered indigent and will thereafter be treated as an ordinary residential property owner or account holder for the financial year concerned.

5.13.2 Relief may be withdrawn if a registered indigent fails to keep to the terms of the policy or any tampering with the installations of the municipality is detected.

5.13.3 A person shall be liable to repay the municipality with immediate effect all indigent relief received from the date of such fraudulent registration.

5.14 An approved community communications programme in English, Afrikaans and Xhosa, embodying the principles of transparency will be implemented in respect of the indigent support programme.

5.15 Council may introduce further principles consistent with the objectives of Indigent support and Social rebates.

6. CRITERIA FOR QUALIFICATION FOR INDIGENT SUPPORT AND SOCIAL REBATES

6.1 REGISTERED HOME OWNERS

Commented [WF1]: 6.1.X The average monthly purchase/consumption of electricity by the household over the previous year may not exceed 350 kWh (units)

6.1.X The value of the property should not exceed the amount of R100,000. Owners of residential properties with a value of R100,000 or less will automatically qualify for the basic services, provided that they meet all the other criteria for indigent relief .

6.1.X The normal application process will apply to households where the property value and consumption figures exceeds the required limits

6.1.1 A household where the combined gross income of all occupants is below a level as defined by Council on an annual basis, inclusive of the unemployed and recipients of government old age and/or disability pensions.

6.1.2 Registered owner occupiers or residents in Municipal schemes who have signed a deed of sale with the Municipality will qualify.

6.1.3 Indigent support is not limited to residents in government housing schemes only. All residents that meet the criteria will qualify.

6.1.4 Applicants who formally apply for relief must satisfy the criteria/principles determined by Council.

6.1.5 Only households/occupants/residents/dependants who do not own more than one property, will qualify.

6.1.6 The applicant must be a South African citizen or must have proof of recognized refugee status.

6.1.7 An application for a rebate must be accompanied by an affidavit or documentary proof of the true income and/ or employment status of the applicant.

6.2 TENNANTS

6.2.1 The tenant must apply in person and may qualify for refuse, basic water and sewerage charges only, for which charges he or she must receive a municipal account.

6.2.2 The person receiving the rent payable by the tenant whether on the person's own account or as an agent for any other person entitled thereto or interested therein, is responsible for rates.

6.3 DECEASED ACCOUNT HOLDER

6.3.1 The existing account will continue under the indigent relief measures, on condition that only the surviving spouse or dependent children may apply.

6.3.2 An application for the continuance of the indigent relief measure must be submitted.

6.3.3 The arrears, if any, of the deceased account holder will be written off on condition that the "interim account holder" take full responsibility for any future billing amounts.

7. EXTENT OF INDIGENT SUPPORT AND SOCIAL REBATES

The extent of any support will be determined by Council's budgetary provisions after taking into consideration the amount received from National Government for this purpose.

8. APPLICATION FOR INDIGENT SUPPORT

8.1 Applications for relief must be made in a manner prescribed by Council whereupon the applicant must comply with the necessary requirements to qualify for support.

8.2 The application form to contain, inter alia, the following important information:

8.2.1 Details of the account holder e.g. Owner of the property;
8.2.2 Proof of income of all residents of the household;
8.2.3 Identification documents; and
8.2.4 Number and names of dependants, permanently resident at that address.

8.3 Applications for continued relief must be submitted on an annual basis.

9. APPLICATION FOR SOCIAL REBATE

9.1 Council may annually grant a social rebate to pensioners and persons receiving a Government disability pension, or old age pension.

9.2 The conditions to qualify for the social rebate are as follows:

9.2.1 The person must be 60 years of age and older and only need to apply once where after a database of this category will be maintained, scrutinize annually, and automatically granted a rebate for all ensuing years.

9.2.2 The person must occupy the property registered in their name.

9.2.3 The joint gross income from all sources may not exceed an amount to be approved by Council on an annual basis (currently R4300 per month). Where two pensioners are residing on the same property, only one pension or grant amount will be taken into account to determine the rebate percentage.

9.2.4 Some of the sources of income from the applicant and the spouse of the applicant are the following:

9.2.4.1 Income from employment
9.2.4.2 Income from self-employment
9.2.4.3 Income from pension (all types of pension)
9.2.4.4 Income from rental
9.2.4.5 Income from investment

9.2.5 Persons who are under the age of 60 years and in receipt of a Government disability pension (grant) may also qualify for the social rebate.

10. APPLICATION AND SUPPORTING DOCUMENTATION

10.1 The applicant must complete an 'Application for Social Rebate' form, which will be available at all municipal enquiry offices.

10.2 The application must be submitted before 31 May of each year.

10.3 The following must accompany the application form:

10.3.1 Proof of any income
10.3.2 Proof of unemployment
10.3.3 A copy of the applicant's identity documents
10.3.4 An affidavit witnessed by a commissioner of oath that income from all sources is less than R4300 per month.

11. ON-SITE AUDIT INSPECTION

An on-site audit may be conducted by municipal employees or designated agents to verify the information supplied on the Application Form. Confirmation of circumstances will be at the discretion of Council.

12. **BASIC SERVICES OFFERED TO THE INDIGENT AND RECIPIENTS OF A STATE PENSION OR STATE DISABILITY GRANT**

Indigent Support and Social Rebates is to be provided for the following services, subject to funds being allocated and appropriate allocation of funds by the National Treasury and the relevant criteria being adhered to:

12.1 Rates
12.2 Basic Sewerage
12.3 Refuse
12.4 ~~Basic~~ Water
11.5 If on conventional metering a conversion to pre-paid is a pre requisite.

Consumption of water and electricity, subject to special allowances for free water and electricity, must be paid in full.

13. **DISCRETIONARY POWERS**

Council has the discretion to amend any clause, stipulation or tariff embodied in the Indigent Support and Social Rebate Policy in the interest of the parties concerned.

ooOoo

Commented [WF2]: Increase from 90% to 100% on the nett rates payable after deduction of the general residential rebate

Commented [WF3]: 100%, 50%, 25% of monthly basic charge

Commented [WF4]: 100%, 50%, 25% of monthly basic charge

Commented [WF5]: 100%, 50%, 25% of monthly basic charge + 6kl free water provided that a water management device is installed to regulate the daily water consumption

Commented [WF6]: Electricity (Pre-paid metering is a prerequisite, except where circumstances necessitate the use of a credit meter) 50kWh per month

KNYSNA

Virement Policy

2017/2018

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DOCUMENT DEFINITION

Version	1	
Date		
Summary	This document is the Virement Policy applicable to the Knysna Municipality	
Signature	 ______________________ **MUNICIPAL MANAGER**	**Date**: ______________
Approved by the Council	 ______________________ **Resolution**	**Date**: ______________
Effective date	**1 July 201**	
Next revision date	**March 201**	

PART 1: PREAMBLE

1.1. **WHEREAS** Section 81(1)(d) of the MFMA states *inter alia* that "*The Chief Financial Officer of a municipality-…must advise senior managers and other senior officials in the exercise of powers and duties assigned to them in terms of section 78 or delegated to them in terms of section 79;…";* and

1.2. **WHEREAS** the Chief Financial Officer therefore has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control; and

1.3. **WHEREAS** a municipality's virement policy and its underlying administrative process within the system of delegations is one of these controls**;** and

1.4. **WHEREAS** Section 78(1)(b) of the MFMA states *inter alia* that "*Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure-…(b) that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently;…";*

1.5. **WHEREAS** the Municipal Budget and Reporting Regulations, 2008 and related annual Municipal Budget Preparation Circulars (e.g. Circular 51 of 2010/11, clause 4.6) provide for a Municipal Virement Policy; and

1.6. **NOW THEREFORE** the Knysna Municipal Council adopts the Municipal Virement Policy as set out in this document.

PART 2: PURPOSE

2.1. This policy aims to provide guidelines to senior management in the use of virements as a mechanism in their day-to-day management of their budgets. In addition it specifically aims to empower senior managers with an efficient financial – and budgetary system to ensure optimum service delivery within the current legislative framework of the MFMA and the Municipality's system of delegations.

PART 3: ALIGNMENT WITH THE MUNICIPALITIES' STRATEGIC GOALS AND OBJECTIVES

3.1. This Policy supports the following municipal strategic directions drawn from the Integrated Development Plan [IDP] and Strategic Development Business and Implementation Plan [SDBIP]:

- **IDP**: "*To facilitate economic development and integration of communities by utilising the resources of Council to increase the participation of local people in the mainstream economy and improve their livelihoods without compromising the financial viability of the municipality.*"
- **SDBIP**: *"To manage municipal resources in such a way that it improves the sustainability of the municipal assets and that financial planning and budget linkages can be optimised for improved service delivery and development"*

PART 4: CONTEXT, PRINCIPLES, VALUES AND ISSUES

4.1. Webster's New Millennium™ Dictionary of English defines "Virement" as "a regulated transfer or re-allocation of money from one account to another, especially public funds."

4.2. A virement represents a flexible mechanism to effect budgetary amendments within a municipal financial year.

4.3. Changing circumstances and priorities during a financial period may give rise to a need to virement (transfer) funds within or between approved Votes, as defined in the Municipal Finance Management Act 56 of 2003 (MFMA).

4.4. The treatment of such instances may, however, be dependent on whether an adjustments budget is required or not and for this purpose the Virement Policy has been developed.

PART 5: SCOPE OF APPLICATION

5.1. This Policy is applicable to all municipal officials and must be complied with in every case where virements are dealt with.

5.2. All applications must be referred in the first instance, to the CFO for consideration and advice.

PART 6: MAINTENANCE

6.1. Given the changing nature of the regulatory, control and operational environment of the Municipality, this Policy will be regularly reviewed and updated on an on-going basis

PART 7: IMPLEMENTATION

7.1. This Policy is effective from the date of approval by Council.

7.2. It is the responsibility of the various Line Department Managers to bring the content of this Policy to the attention of all parties concerned.

PART 8: GOVERNANCE AND REGULATORY FRAMEWORK

8.1. All disposals or letting of assets in terms of this Policy shall comply with the:

8.1.1. Constitution of the Republic of South Africa, 1996 as amended;
8.1.2. Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) – section 118 – [MSA];
8.1.3. Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) – section 71(1)(g)(iii) – [MFMA];
8.1.4. Municipal Budget and Reporting Regulations, 2008 and related annual Municipal Budget Preparation Circulars; and
8.1.5. Any other applicable legislation, regulations and policies that may govern virements and that are not in contradiction with the primary legislation referred to above.

8.2. The MFMA regulates as follows regarding the incurring of expenditure against budgetary provisions.

8.2.1. Section 15 – Appropriation of funds for expenditure *"A municipality may, except where otherwise provided in this Act, incur expenditure only-*

(a) in terms of an approved budget; and
(b) within the limits of the amounts appropriated for the different votes in an approved budget."

8.2.2. Unauthorised Expenditure (MFMA Definition) *"in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes-*

(a) overspending of the total amount appropriated in the municipality's approved budget;
(b) overspending of the total amount appropriated for a vote in the approved budget;

(c) expenditure from a vote unrelated to the department or functional area covered by the vote;
(d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
(e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
(f) a grant by the municipality otherwise than in accordance with this Act;"

8.2.3. Overspending (MFMA Definition)

"(a) in relation to the budget of a municipality, means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;
(b) in relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or
(c) in relation to expenditure under section 26, means causing expenditure under that section to exceed the limits allowed in subsection (5) of that section;"

8.2.4. Section 71(1)(g)(iii) states inter alia *"(1) The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:…(g) when necessary, an explanation of-*

…(iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget…."

8.3. The Municipal Budget and Reporting Regulations, 2008 and related annual Municipal Budget Preparation Circulars (e.g. Circular 51 of 2010/11, clause 4.6) provide that:

"The MFMA and the Municipal Budget and Reporting Regulations seek to move municipalities away from the traditional approach of appropriating/approving budgets by line item. The aim is to give the heads of municipal departments and programmes greater flexibility in managing their budgets. To further facilitate this, each municipality must put in place a council approved virements policy, which should provide clear guidance to managers of when they may shift funds between items, projects, programmes and votes.

The following principles must be incorporated into municipal virements policies:

(a) Virements should not be permitted in relation to the revenue side of the budget;
(b) Virements between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separate votes);
(c) Virements from the capital budget to the operating budget should not be permitted;
(d) Virements towards personnel expenditure should not be permitted;
(e) Virements to or from the following items should not be permitted: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT;
(f) Virements should not result in adding 'new' projects to the Capital Budget;
(g) Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted; and
(h) There should be prudent limits on the amount of funds that may be moved to and from votes and sub-votes (e.g. not more than 5 per cent of the budget may be moved to or from a vote, programme, project etc.).

The policy must also indicate how the virements process is to be managed within the municipality so as to enable the tracking and reporting of funding shifts."

PART 9: VIREMENT REQUIREMENTS AND RESTRICTIONS

9.1. The virement process represents the major mechanism to align and take corrective (financial / budgetary) action within a Vote during a financial year.

9.2. Virement can be approved as follows:

9.2.1.	0 - 200 000	-	Director and CFO
9.2.2	200 001 - 500 000	-	Accounting Officer, CFO and Director
9.2.3	>500 000	-	Council

9.3. In order for a "Vote" to transfer funds from one cost element or capital project to another cost element or capital project, a saving has to be identified within the monetary limitations of the approved "giving" cost element or capital project allocations on the respective budgets.

9.4. Sufficient, (non-committed) budgetary provision should be available within the "giving" vote's cost element or project concerned to give effect to the budgetary transfer (virement). In addition, the transferring function must clearly indicate to which cost element or capital project the budget provision will be transferred to and provide a clear motivation for the transfer.

9.5. Any budgetary amendment of which the net impact will be a change to the total approved annual budget allocation and any other amendments not covered in this policy are to be considered for budgetary adoption via an adjustments budget (per MFMA Section 28).

9.6. In terms of Section 17 of the MFMA a municipality's budget is divided into an operating and capital budget and consequently no virements are permitted between Operating and Capital Budgets.

9.7. A virement may not create new policy, significantly vary current policy, or alter the approved outcomes / outputs as approved in the IDP for the current or subsequent years (section 19 and 21 MFMA).

9.8. Virements resulting in adjustments to the approved SDBIP need to be submitted with an adjustments budget to the Council with altered outputs and measurements for approval (MFMA Circular 13 page 3 paragraph 3).

9.9. No virement may commit the Municipality to increase recurrent expenditure, which commits the Council's resources in the following financial year, without the prior approval of the Mayoral Committee. This refers to expenditures such as entering into agreements into lease or rental agreements such as vehicles; photo copier's or fax machines.

9.10. No virement may be made where it would result in unauthorised expenditure (section 32 MFMA)

9.11. No virement shall add to the staff establishment of the Municipality without the approval of Municipal Manager and the CFO.

9.12. Budget may only be transferred to and from Salaries if prior approval is obtained from the CFO.

9.13. If the virement relates to an increase in the work force establishment, then the Council's existing recruitment policies and procedures will apply.

9.14. Virements may not be made in respect of ring-fenced allocations.

9.15. No virements are permitted in the first three months or the final month of the financial year without the express prior approval of the CFO.

9.16. Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets. (Section 30 MFMA).

9.17. An approved virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the Municipal Supply Chain Management Policy and System as periodically reviewed.

PART 10: OPERATING BUDGET VIREMENTS

10.1. Virements are not allowed to utilise special purpose budgetary allocations, adopted by Council as such and to which specific Council recommendations apply (e.g. budget strategy for growth in repairs and maintenance provisions) and which result from specific resolutions adopted when adopting the budget, as virement sources.

10.2. Sound motivations should be provided for all virements, as provided for on pro forma virement documentation.

10.3. Specific virement limitations:

10.3.1. No virements are permitted to and from Grants and Subsidies Paid, except if supported by Council decision for such transfer and as per the approved Grants-in-Aid Policy.

10.4. Salaries, Wages and Allowances Subjective Category:

10.4.1. Virements are allowed between cost elements of - and only if these virements are within - this subjective category.
10.4.2. Virements to and from this subjective expenditure category are subject to the approval of the CFO

10.5. Remuneration of Councillors

10.5.1. No virements to and from this category are allowed.

10.6. General Expenditure and Repairs and Maintenance (Primary)

10.6.1. Virements to and from cost elements within these categories are allowed (Virements are allowed from General Expenditure to Repairs and Maintenance).

10.7. The following cost elements categories are not to be used as sources of virements, but virements are allowed within each category:

10.7.1. Training related expenditure
10.7.2. Bargaining Council provisions and skills development levies
10.7.3. Insurance related provisions
10.7.4. Pensioner and Continued Members

10.8. Contracted Services and Collection Costs

10.8.1. Virements to and from these elements are allowed.

10.9. No virements will be permitted to and from the following expenditure categories, unless such amendments are effected within the cost element:

(i) Bad Debts
(ii) Interest Charges and Depreciation
(iii) Appropriation Accounts

10.10. Revenue

10.10.1. No virements will be approved on any Revenue element. Revenue provisions' amendments are to be adopted via an adjustments budget.

10.11. Secondary Operating Cost Elements

10.11.1. Virements are allowed within the same cost elements. The service requestor and service provider must both endorse such virements.
10.11.2. Internal Utilities and Bulk Internal Utilities virements are permissible, on condition that the respective Internal Utilities Revenue and Bulk Internal Utilities Revenue are amended simultaneously.
10.11.3. Virements are only permitted within the same cost element in the following categories:
(i) Activity Based Recoveries
(ii) Internal Utilities
(iii) Bulk Internal Utilities
10.11.4. Virements may not increase the total approved budget of that cost element.
10.11.5. Virements are not permissible in relation to Support Service Charges.
10.11.6. No virements which relate to Insurance departmental premiums or Internal Capital Charges will be permitted.

10.12. Ward Allocations Projects

10.12.1. All conditions under "Operating Budget Virements" section above should be met, as well as the following when virementing between ward allocation projects
10.12.2. Only virements between existing projects approved by Council, within the same Vote will be permitted.
10.12.3. Virements will only be considered if approved by the relevant project managers and finance managers of the projects involved.
10.12.4. Motivations for virements between projects should clearly state the reason for the saving within the "giving" project, as well as the reason for the additional amount required.

PART 11: CAPITAL BUDGET VIREMENTS

11.1. Only virements which relate to projects approved as part of annual or adjustments budgets will be permitted.
11.2. No virements of which the affect will be to add "new" projects onto the Capital Budget will be allowed.
11.3. Virements must be between projects of similar funding sources (e.g. EFF, CRR).
11.4. Implementation of the project from which funds are viremented may not be prejudiced (i.e. must not hinder completion of the project).
11.5. Motivations for virements should clearly state the reason for the saving within the "giving" project, as well as the reason for the additional amount required.

11.6 Ward Allocations Projects:

11.6.1 Only virements between existing projects approved by Council, within the same Vote will be permitted.
11.6.2 Virements will only be considered if approved by the relevant project managers and finance managers of the projects involved.
11.6.3 Motivations for virements between projects should clearly state the reason for the saving within the "giving" project, as well as the reason for the additional amount required.

PART 12: PROCESS AND ACCOUNTABILITY

12.1.1. Accountability to ensure that virement application forms are completed in accordance with Council's virement policy and are not in conflict with the Municipality's strategic objectives manifests with the relevant Senior Manager.
12.1.2. Completed virement documentation is to be effected by the CFO.
12.1.3. Virements approved and processed will be reported for information to the Mayor on a quarterly basis. All virement proposals requests must be completed on the appropriate documentation and forwarded to the relevant finance official for checking, authorisation and implementation.
12.1.4. All virements must be signed by the Vote holder (per department) and the Director within which the vote is allocated. As indicated in 9.2.
12.1.5. A virement form must be completed for all Budget Transfers. All virements must be included as changes in to the SDBIP.
12.1.6. All documentation must be in order and approved before any expenditure can be committed or incurred.
12.1.7. The Municipal Manager will report to the Mayor on a quarterly basis on departmental main vote those virements that have taken place during that quarter and monthly to the Finance Committee.

PART 13: DEFINITIONS

Accounting Officer/AO (MFMA) "- (a) in relation to a municipality means the municipal official referred to in section 60; or…"

Approved Budget (MFMA) " - means an annual budget-
(a) approved by a municipal council; or

1.1. (b) approved by a provincial or the national executive following an intervention in terms of section 139 of the Constitution, and includes such an annual budget as revised by an adjustments budget in terms of section 28;"
1.2.

Budget-related policy means a policy of a municipality affecting or affected by the annual budget of the municipality.

Capital Budget This is the estimated amount for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods.

Chief Financial Officer/CFO (MFMA) "a person designated in terms of section 80(2)(a)"

Council means the council of a municipality referred to in section 18 of the Municipal Structures Act.

Cost Centre - Cost centre is a cost collector which represents a logical point at which cost (expenditure) is collected and managed by a responsible cost centre owner.

Cost element - Cost elements distinguish between primary and secondary cost elements. Primary cost elements are expenditure items mainly generated outside the organisation. Secondary cost elements are utilised to reallocate cost by means of assessments, internal billing or activity based recoveries.

Director - Section 56 of the Systems Act states inter alia that: "Appointment of managers directly accountable to municipal managers - (a) a municipal council, after consultation with the municipal manager, appoints a manager directly accountable to the municipal manager…" Also include Section 57 of the Systems Act.

Financial year - The 12 month period between 1 July and 30 June.

Line Item an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditures.

Unauthorised Expenditure (MFMA Definition)

Overspending (MFMA Definition) 1.2. “Operating Budget” The Town's financial plan, which outlines proposed expenditures for the coming financial year and estimates the revenues used to finance them.

Ring Fenced an exclusive combination of line items grouped for specific purposes for instance salaries and wages.

Service delivery and budget implementation plan means a detailed plan approved by the mayor of a municipality in terms of section 53(1) (c) (ii) for implementing the municipality’s delivery of municipal services and its annual budget.

Vote (MFMA) “(a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and

(b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.” ***[See annexure “A1” for current Vote structure]***

Virement - The process of transferring an approved budgetary provision from one operating cost element or capital project to another within a vote during a municipal financial year and which results from changed circumstances from that which prevailed at the time of the previous budget adoption.

MFMA: -The Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

PART 15 ABBREVIATIONS

C	-	Council
MM	-	Municipal Manager
HOD’s	-	Heads of Departments
CFO	-	Chief Financial Officer
IDP	-	Integrated Development Plan
MFMA	-	Municipal Finance Management Act No. 56 of 2003
SDBIP	-	Service delivery and budget implementation plan
CM	-	Council Minute/’s
FC	-	Finance Committee
CIDS	-	Central Inventory distribution system
DIR	-	Director (Sec 56 or 57 appointment)

ANNEXURE A – VOTE CLASSIFICATION

ANNEXURE B

APPLICATION FOR VIREMENTS

KNYSNAMUNICIPALITY

CASH, LIABILITY, BORROWING AND INVESTMENT MANAGEMENT POLICY

Effective date: 1 July 2017

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LIABILITY, INVESTMENT AND CASH MANAGEMENT POLICY

1. **INTRODUCTION**

1.1 As the trustee of public funds Council is exposed to risks that may arise from debt raising, investments and associated interest rate management activity.

1.2 The purpose of this policy is to ensure that public funds are safeguarded and risk is reduced to an acceptable level within a regulatory framework.

1.3 This policy is required in terms of the provision of the MFMA (Act 56 of 2003).

2. **REGULATORY FRAMEWORK**

- Legislation – Municipal Finance Management Act 56 of 2003
- Treasury regulations in terms of Section 13(1) of the Act.

3. **OBJECTIVES**

- To comply with the regulatory framework in terms of the relevant legislation.
- To manage Council's investments within its strategic objectives and invest surplus cash in liquid and creditworthy approved institutions.
- To raise appropriate finance, whilst recognizing maturity and interest rates, in accordance with budgetary requirements.
- To manage the overall cash position of Council's operations.

In meeting the above objectives, Council is, above all, a risk averse entity and seeks to minimise risk within its financial management activities. Interest rate risk, liquidity risk and credit risk are risks that Council needs to manage. Accordingly any activity which may be construed as speculative in nature is expressly forbidden.

4. **RESPONSIBILITY AND ACCOUNTABILITY**

The key responsibilities in terms of the MFMA are:

Council

- Approve borrowing during Annual Planning process, in line with the budget and IDP.
- Approve additional new borrowing not determined during the annual planning process.
- Approve Cash Management Policy.

Accounting Officer (Municipal Manager)

- Opening and closing bank accounts
- Formally review the treasury policy at least once every 2 years.
- Delegate authority to the Accountant: Treasury.

Director: Finance (CFO)

- Negotiate borrowing facilities with approved lending institutions.
- Review bi-annual reports to monitor compliance with policy, procedures and risk limits.
- Recommend amendments to the policy and procedures to Council for approval.
- Overall responsibility for all activities relating to implementation of approved policy.
- Manage Council's relationship with financial institutions.
- Determine most appropriate source and terms and conditions of borrowing and recommend such to Council for approval.

Financial Manager:

- Management responsibility for implementing policy relating to borrowing, investment and risk management activity.

Accountant: Treasury

- Responsible for keeping the Financial Manager informed of significant policy activity and market trends.
- Execute daily cash management, investment, borrowing and risk management activities.
- Arrange all borrowing documentation and prepare authorization resolutions.
- Produce monthly reports on investment, borrowing and risk management activity.
- Annual review of credit ratings of banks.
- Ensure all borrowing has been approved by Council.

5. BORROWING **POLICY**

The Accounting Officer must put accounting measures in place to ensure that no unspent portions of loans are utilised for operating purposes.

For budgeting purposes any difference between proposed capital spending from loans and proposed loans raised must be included in the cash surplus for the year, i.e. any unspent borrowings at year end must be cash-backed in the 'Cash backed reserves/accumulated surplus reconciliation'.

Repaying long-term liabilities will impact directly on future tariffs that will be charged to consumers. For this reason, Council will give priority to borrowing for revenue-generating assets only. Provision for acquiring non-revenue generating assets will be made by way of utilising other funding sources.

Legal Requirements

It is required that the Municipality comply with the guidelines of Chapter 6 of the MFMA with regards to Debt Disclosure as detailed in Sections 46, 47, 48 and 49. This section should be read in conjunction with point c) under paragraph 4.2. on page 6. External borrowings may only be incurred for approved capital programmes and may under no circumstances be allocated to fund the Operating Budget.

Municipal infrastructure has a long-term economic life and it is appropriate to fund assets of this nature with long term external borrowing. The economic life of assets should be equal to or longer than the tenure of the external borrowing.

5.1 **General Policy**

Council borrows money by raising loans as it considers appropriate. Council approves borrowing by resolution. Projected debt levels are ascertained from detailed cash flow forecasts prepared during the Strategic and Annual Planning process, in line with the budget and IDP.

Council raises money for the primary purpose of investment in assets, i.e. property, plant or equipment to be used for the purpose of achieving the objectives of local government as set out in section 152 of the Constitution of South Africa.

In evaluating new borrowings (in relation to source, term, size and pricing) the Director: Finance will take into account the following:

5.1.1 The size of the loan in relation to the economic life of the project.

5.1.2 Revenue, if any, flowing from the project.

5.1.3 The impact of the new debt on total debt and therefore on the borrowing limits.

5.1.4 Relevant margins under terms and conditions of each borrowing source.

5.1.5 Council's overall debt maturity profile, to avoid concentration of debt at re-issue/rollover time.

5.1.6 Prevailing interest rates relative to term for both stock issuance and bank borrowing and management's view of future interest rate movements.

5.1.7 Available terms from banks as well as stock issuance or annuity loans.

5.1.8 Legal documentation and financial covenants.

5.1.9 Impact on the relevant tariffs (in case of specific assets) or property rates in case of general assets.

5.2 Debt Limits

In managing debt, Council will adhere to the following limits (based on Council's latest core financial statements as well as MFMA Circular 71):

5.2.1 The maximum level of all long term external debt will not exceed 25% of total carrying value of non-current assets.

5.2.2 The gross interest and redemption expense of all external long term borrowing will not exceed 15% of total own revenue as reflected in the Statement of Financial Performance.

5.3 Liquidity and Credit Risk Management

Council's ability to readily raise cost effective borrowing depends on its ability to maintain a strong balance sheet as well as its ability to generate property rates income, manage its image in the money and capital markets and its relationships with bankers.

Council needs to ensure funds are available for repayment of debt; that maturities of investments and debt are matched through rolling cash flow forecasts; that investments are maintained in liquid assets and that funds are available through committed and/or uncommitted bank facilities.

5.4 Security

As a general principle, Council will not offer assets or special rates as security for general borrowing programs, however:-

In the event of the lending institutions stipulating a requirement, Council may approve security by way of:

5.4.1 Charging a deemed rate or percentage of rates and/or service revenue; or
5.4.2 In special circumstances levy a charge over one or more of the Council's assets; or
5.4.3 Offer the project to be funded by the loan(s) as security for the loan(s).

5.5 Repayment

The Council will repay the capital and interest of each loan from the budget allocated to that particular loan.

5.6 Contingent Liabilities

Council may from time to time, provide financial guarantees within its legal capacity. Management will ensure that the business plan of the guaranteed party furthers the strategic objectives of Council and that financial statements are received on a regular basis. Before granting a guarantee Council will secure collateral guarantees from the organization members.

These actions to be guided by S50 of the MFMA.

5.7 Foreign Currency Borrowing

Council may not raise loans in a foreign currency.

6. INVESTMENT POLICY

6.1 General Policy

Generally Council will invest surplus funds with deposit taking institutions registered in terms of the Bank's Act, 1990 (Act 94 of 1990), for terms not exceeding one year in anticipation of cash flow expectations.

From time to time, with prior Council approval, investments can exceed 1 [one] year and be made at other institutions/instruments as approved in the National Treasury regulations from time to time.

6.2 Diversification

Council will only make investments with approved institutions which have an A rating.

As a guideline and not a rule , not more than 40% of available funds be placed with a single institution depending upon prevailing market conditions. (Excluding investments made per Council resolution). Notwithstanding the fact that provided that the investment is made at an A-rated bank, invest at the bank that pays the most interest.

6.3 **Quotations**

Prior to an investment being made, at least three [3] written quotations must be obtained.

Acceptance of the above must be governed in order of priority by:

6.3.1 Preservation and safety of principal;
6.3.2 Liquidity;
6.3.3 Yield;
6.3.4 Where appropriate, match dates of repayment of maturing loans.

6.4 **Ownership**

All investments must be made in the name of Knysna Municipality.

6.5 **Investment Managers**

If Investment Managers and/or Firms are to be used for the management of the entire investment portfolio of Council, then these services can only be utilised with prior Council approval based on cost effective considerations.

Should an Investment Management Firms be utilised for placing of individual investments, this must be done in terms of this policy as is the case for an investment with any approved financial institution.

7. **CASH MANAGEMENT POLICY**

7.1 **General Policy**

It is recognised that from time to time, Council has both cash flow surpluses and borrowing requirements due to daily receipts and payments.

Council maintains a weekly cash position summary and a yearly cash flow projection is prepared during the annual planning process and is updated monthly. This determines Council's borrowing requirements and surpluses for investment. Cash invested "outside" the bank account is covered by section 6 of this policy.

7.2 **Bank Account**

Council operates one primary bank account and the following secondary accounts for its day to day operational activity requirements:

- Cash account - day to day cash activities;
- Vat account – VAT 201 claims received from SARS;
- Revenue account – traffic fines paid to the municipality which are cleared regularly to the primary account.

All monies due to Council and due by Council emanating from Council activities must pass through the primary account.

7.3 **Bank Overdraft**

7.3.1 Council policy is, as far as is possible, to avoid going into overdraft.

Short-term debt will only be incurred based on expected income and must be repaid within the same financial year. (S45 of the MFMA)

7.3.2 Any overdrawn bank account at any date must be reported to the next available Council meeting with the attendant reasons.

7.3.3 Any short term facility that requires review must first be submitted to Council for agreement.

8. PERFORMANCE MEASUREMENT

Measuring the effectiveness of Council's treasury activities is achieved through a mixture of subjective measures. The predominant subjective measure is the overall quality of treasury management information. The Director: Finance has primary responsibility for determining this overall quality. Objective measures include:-

8.1 **Borrowing:**

8.1.1 Adherence to policy.
8.1.2 Unplanned overdraft costs.
8.1.3 Comparison of actual monthly and year to date costs vs budget borrowing rate.

8.2 **Investments:**

8.2.1 Adherence to policy.
8.2.2 Timely receipt of interest income.

9. REPORTING

9.1 Reports

The following reports are produced:

Report Name	Frequency	Prepared by	Recipient
Investment	Monthly	Accountant: Treasury	Financial Manager, Director Finance, Council
Debt Report (Borrowing Monitoring Return)	Quarterly	Accountant: Treasury	Financial Manager, Director Finance, Council

10. DELEGATED AUTHORITIES & KEY INTERNAL CONTROLS

10.1 Delegated Authorities

ACTIVITY	RESPONSIBILITY
Alter policy	Council
Approve principal banker	Council
Open/close bank accounts	Municipal Manager
Cheque signatories	Municipal Manager
Approve new borrowing	Council
Arrange new loans	Director: Finance
Manage investments	Director: Finance
Transfers of stock (selling of investments)	Director: Finance
Register new debt issues	Director: Finance

10.2 Key Internal Controls

Sound treasury procedures with appropriate controls are required to minimize risks the Council may experience through unauthorized treasury activity or unintentional error. The following key internal controls are adhered to: (taking cognizance of requirements of Auditor General, Internal Audit and Audit Committee).

10.2.1 Organisational Controls

- Director: Finance has responsibility for establishing appropriate structures, procedures and controls to support borrowing, investment cash management and risk management activity.

- All borrowing, investment, cash management and risk management activity is undertaken in accordance with approved delegations.

Cheque / Electronic Banking Signatories

- Approved by Municipal Manager.

- Dual signatures are required for all cheques and electronic transfers (at least one primary signature).

- Cheques must be in the name of the counterparty crossed “Not Transferable” via the Council bank account except the “Cash” account which must always be at minimum levels.

- No cash cheques may be issued.

Cash floats may be utilized. The level of the float may not exceed R1000 and will be decided upon by the relevant manager in conjunction with the Director: Finance.

Authorised Personnel

- All counterparties are provided with a list of personnel approved to undertake transactions, standard settlement instructions and details of personnel able to receive confirmations.

10.2.2 **Borrowing / Debt**

In addition to the controls listed under Section 10.2.1, the following controls apply to borrowing / debt:

- Borrowing / Debt activities are undertaken within the debt limits specified in Section 5 of the policy.

10.2.3 **Investments**

In addition to the controls listed under Section 10.2.1, the following controls apply to investments:

- Investment activity is undertaken within limits specified in Section 7 of the policy.

- All deliverable certificates of investments for example, bank bills are to be held in safe custody.

11. Public Participation

All debt (borrowing and/ or leases) and investments exceeding a term of [1] one year must be advertised in the local press to promote transparency and the public participation process.

12. Review

This Liability, Investment and Cash Management Policy is the only policy of the municipality and replaces any past policies in this regard. Any revision of this policy must be approved by Council.

This policy must be reviewed and submitted for consideration by Council on an annual basis.

KNYSNAMUNICIPALITY

KNYSNA
Municipality Munisipaliteit uMasipala

CASH, LIABILITY, BORROWING AND INVESTMENT MANAGEMENT POLICY

Effective date: 1 July 2017

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- Delegate authority to the Accountant: Treasury.

Director: Finance (CFO)

- Negotiate borrowing facilities with approved lending institutions.
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- Recommend amendments to the policy and procedures to Council for approval.
- Overall responsibility for all activities relating to implementation of approved policy.
- Manage Council's relationship with financial institutions.
- Determine most appropriate source and terms and conditions of borrowing and recommend such to Council for approval.

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- Management responsibility for implementing policy relating to borrowing, investment and risk management activity.

Accountant: Treasury

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- Execute daily cash management, investment, borrowing and risk management activities.
- Arrange all borrowing documentation and prepare authorization resolutions.
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In evaluating new borrowings (in relation to source, term, size and pricing) the Director: Finance will take into account the following:

5.1.1 The size of the loan in relation to the economic life of the project.

5.1.2 Revenue, if any, flowing from the project.

5.1.3 The impact of the new debt on total debt and therefore on the borrowing limits.

5.1.4 Relevant margins under terms and conditions of each borrowing source.

5.1.5 Council's overall debt maturity profile, to avoid concentration of debt at re-issue/rollover time.

5.1.6 Prevailing interest rates relative to term for both stock issuance and bank borrowing and management's view of future interest rate movements.

5.1.7 Available terms from banks as well as stock issuance or annuity loans.

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In managing debt, Council will adhere to the following limits (based on Council's latest core financial statements as well as MFMA Circular 71):

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5.2.2 The gross interest and redemption expense of all external long term borrowing will not exceed 15% of total own revenue as reflected in the Statement of Financial Performance.

5.3 **Liquidity and Credit Risk Management**

Council's ability to readily raise cost effective borrowing depends on its ability to maintain a strong balance sheet as well as its ability to generate property rates income, manage its image in the money and capital markets and its relationships with bankers.

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All investments must be made in the name of Knysna Municipality.

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Register new debt issues	Director: Finance

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10.2.1 Organisational Controls

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- All borrowing, investment, cash management and risk management activity is undertaken in accordance with approved delegations.

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- Approved by Municipal Manager.

- Dual signatures are required for all cheques and electronic transfers (at least one primary signature).

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- No cash cheques may be issued.

Cash floats may be utilized. The level of the float may not exceed R1000 and will be decided upon by the relevant manager in conjunction with the Director: Finance.

Authorised Personnel

- All counterparties are provided with a list of personnel approved to undertake transactions, standard settlement instructions and details of personnel able to receive confirmations.

10.2.2 **Borrowing / Debt**

In addition to the controls listed under Section 10.2.1, the following controls apply to borrowing / debt:

- Borrowing / Debt activities are undertaken within the debt limits specified in Section 5 of the policy.

10.2.3 **Investments**

In addition to the controls listed under Section 10.2.1, the following controls apply to investments:

- Investment activity is undertaken within limits specified in Section 7 of the policy.

- All deliverable certificates of investments for example, bank bills are to be held in safe custody.

11. **Public Participation**

All debt (borrowing and/ or leases) and investments exceeding a term of [1] one year must be advertised in the local press to promote transparency and the public participation process.

12. Review

This Liability, Investment and Cash Management Policy is the only policy of the municipality and replaces any past policies in this regard. Any revision of this policy must be approved by Council.

This policy must be reviewed and submitted for consideration by Council on an annual basis.

KNYSNA MUNICIPALITY

KNYSNA
Municipality Munisipaliteit uMasipala

FUNDING AND RESERVES POLICY

Effective date: 1 July ~~2016~~2017

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The approved amendments to this policy are intended to make certain sections more clear, provide more details for readers, users and practitioners, and show links with the budget schedules required in the terms of the Municipal Budget and Reporting Regulations that are used in the Medium Term Revenue and Expenditure (MTREF) budget report that is submitted to council for approval of the annual budget.

FUNDING AND RESERVES POLICY

1. INTRODUCTION AND OBJECTIVE

The Council sets itself the objective of becoming a financially sustainable municipality with basic levels of service delivery to the entire community.

This policy aims to set standards and guide lines towards ensuring financial viability over both the short- and long term and includes funding as well as reserves requirements.

2. SECTION A: FUNDING POLICY

2.1 LEGISLATIVE REQUIREMENTS

In terms of Sections 18 and 19 of the Municipal Finance Management Act (Act No 56 of 2003) (MFMA), an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes and
- Borrowed funds, but only for capital projects.

Furthermore, spending on a capital project may only be commenced once the funding sources have been considered, are available and have not been committed for other purposes.

In determining whether the budget is funded and in addition ensuring long term financial sustainability, the municipality will use analytical processes, including those specified by National Treasury from time to time.

2.2 STANDARD OF CARE

Each functionary in the budgeting and accounting process must do so with judgment and care that the objectives of this policy are achieved.

2.3 STATEMENT OF INTENT

The municipality will not pass a budget which is not funded or where any of the indicators as listed in this document are negative, unless acceptable reasons can be provided for non-compliance and provided that the requirements of the MFMA must at all times be adhered to.

2.4 CASH MANAGEMENT

Cash must be managed in terms of the municipality's Cash, Liability and Investment Management Policy.

2.5 LIABILITY MANAGEMENT

Debt must be managed in terms of the municipality's Cash, Liability and Investment Management Policy, together with any requirements in this policy.

2.6 FUNDING THE OPERATING BUDGET

2.6.1 INTRODUCTION

The municipality's objective is that the user of municipal resources must pay for such usage in the period in which it will occur.

The municipality recognises the plight of the poor, and in line with national and provincial objectives, commits itself to subsidizing services to the poor. This may necessitate cross-subsidization in some tariffs to be calculated in the budget process.

2.6.2 GENERAL PRINCIPLE WHEN COMPILING THE OPERATING BUDGET

The following specific principles apply when compiling the budget:

a) The budget must be funded, i.e. revenue and expenditure projections must be realistic and the provision for impairment of receivables must be calculated on proven recovery rates;

b) Growth parameters must be realistic and be based on historic patterns adjusted for current reliable information[1];

c) Tariff adjustments must be fair, taking into consideration general inflation indicators as well as the geographic region's ability to pay;

d) Revenue from Government Grants and Subsides must be in accordance with the amounts promulgated in the Division of Revenue Act, proven provincial transfers and any possible transfers to or from other municipalities.

[1] Refer also to the Rates Policy, Section 3. Principles

Within the budget, grants recognised as revenue must equal the total expected expenditure from grants inclusive of capital expenditure and VAT, as per directives given in various MFMA Circulars.

e) Projected revenue from services charges must be reflected as net (i.e. all billing less revenue foregone, including free basic services, discounts and rebates).

f) Projected revenue from property rates must include all rates to be levied. All rebates and discounts must be budgeted for as revenue foregone.

The cash flow budget will reflect cash movements on the budgeted statement of financial position as well as cash items on the budgeted statement of financial performance.

g) Depreciation must be fully budgeted for in the operating budget.

2.7 FUNDING THE CAPITAL BUDGET

2.7.1 INTRODUCTION

The municipality’s objective is to maintain, through proper maintenance and replacement measures, existing levels of service and to improve and implement services which are neglected or non – existent.

In order to achieve this objective the municipality must annually, within financial means, budget for the replacement of redundant assets as well as acquiring new assets.

2.7.2 FUNDING SOURCES FOR CAPITAL EXPENDITURE

The capital budget can be funded by way of transfers and grants, public contributions and donations, borrowing and internally generated funds.
Proceeds from the sale of assets must mainly be used to fund the capital replacement reserve and infrastructure type projects.

Internally Generated Funds

The capital budget may be financed from internally generated fundssuch as the capital replacement reserve and surplus cash resources. The allocations of the funding sources from internally generated funds will be determined during the budget process.

Transfers and Grants (Including Public Contributions and Donations)

Grants for capital expenditure have become a common practice, especially in order to extend service delivery to previously disadvantaged areas. While such grants are welcomed, care should be taken that the acceptance of grant funding does not place an unreasonable burden on the residents for future operating and maintenance costs which may be higher than their ability to pay.

The Accounting Officer will annually evaluate the long term effect of capital grants on future tariffs, and if deemed necessary, report on such to Council.

Borrowings

The municipality may only raise long-term borrowings in accordance with its Cash, Liability and Investment Management Policy.

The Accounting Officer must put accounting measures in place to ensure that no unspent portions of loans are utilised for operating purposes.

For budgeting purposes any difference between proposed capital spending from loans and proposed loans raised must be included in the cash surplus for the year, i.e. any unspent borrowings at year end must be cash-backed in the 'Cash backed reserves reconciliation'.

Repaying long-term liabilities will impact directly on future tariffs that will be charged to consumers. For this reason, Council will give priority to borrowing for revenue-generating assets only. Provision for acquiring non-revenue generating assets will be made by way of utilising other funding sources.

2.8 FUNDING COMPLIANCE MEASUREMENT

2.8.1 INTRODUCTION

The municipality must ensure that the annual budget or any subsequent adjustments budget complies with the requirements of the MFMA and this policy. For this purpose a set of indicators must be used as part of the budget process and be submitted with the budget. These indicators will include all indicators as recommended by National Treasury as well as any additional indicators detailed in this policy.

If any of the indicators are negative during the compilation or approval process of the budget, the budget may not be approved, unless those negative indicators can

be reasonably explained and any future budget projections address the turn-around of these indictors to within acceptable levels[2].

2.8.2 CASH AND CASH EQUIVALENTS AND INVESTMENTS

A positive cash/cash equivalents position should be maintained throughout the year. In addition, the forecasted cash position at year-end must at least be the amount as calculated in the Reconciliation of Cash Requirements as determined by this policy and attached to this policy as Appendix "A"[3].

2.8.3 CASH PLUS INVESTMENTS LESS APPLICATION OF FUNDS

The overall cash position (cash/cash equivalents and investments) of the municipality must be sufficient that it can:

- Provide for the cash-backing of:
  - unspent conditional transfers and grants;
  - unspent conditional public contributions;
  - unspent borrowing;
  - the cash portion of statutory funds such as the Housing Development Fund;
  - VAT due to SARS;
  - secured investments (whether long- or short-term);
  - reserves as approved by the municipality and those portions of provisions as indicated elsewhere in this policy; and
- Take into account other working capital requirements.

2.8.4 INDICATORS

2.8.4.1 MONTHLY AVERAGE PAYMENT COVERED BY CASH AND CASH EQUIVALENTS ("CASH COVERAGE")[4]

This indicator shows the level of risk should the municipality experience financial stress.

2.8.4.2 SURPLUS/DEFICIT EXCLUDING DEPRECIATION OFFSETS[5]

It is probable that the operating budget including depreciation charges on assets funded by grants and public contributions, as well as on revalued assets, could result in a deficit.

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[2] Indicators may include those referred to in the following budget schedules:
SA8: Performance indicators and benchmarks
SA10: Funding measurement

[3] A surplus balance on budget schedule A8: Cash backed reserves/accumulated surplus reconciliation

[4] Supporting Table SA10 Funding measurement: indicator no. 3

[5] Supporting Table SA10 Funding measurement: indicator no. 4

It is not the intention that residents be burdened with tariff increases to provide for such depreciation charges. In order to ensure a "balanced" budget but excluding such depreciation charges, the depreciation charges maybe offset against the net surplus / deficit.

2.8.4.3 PROPERTY RATES/SERVICE CHARGE REVENUE PERCENTAGE INCREASE LESS MACRO INFLATION TARGET[6]

The intention of this indicator is to ensure that tariff increases are in line with macro economic targets, but also to ensure that revenue increases for the expected growth in the geographic area are realistically calculated.

The formula to be used is as follows:

	DESCRIPTION	PROPERTY RATES	SERVICE CHARGES	TOTAL
A	Revenue of budget year	R XX	R XX	R XX
B	Less: Revenue of prior year	R XX	R XX	R XX
C	**=Revenue increase/decrease**	**R XX**	**R XX**	**R XX**
D	% Increase/(Decrease)	C/B %	C/B %	C/B %
E	Less: Upper limit of macro Inflation target	%	%	%
F	**=Growth in excess of inflation target**	**%**	**%**	**%**
G	Less: Expected growth %	%	%	%
H	**=Increase attributed to tariff Increase above macro inflation target**	**%**	**%**	**%**

In the event that the percentage in (h) above is greater than zero, a proper motivation must accompany the budget at submission, or the budget must be revised.

2.8.4.4 CASH COLLECTION PER CENTRATE[7]

The object of the indicator is to establish whether the projected cash to be collected is realistic and complies with section 18 of the MFMA.

[6] Supporting Table SA10 Funding measurement: indicator no. 5
[7] Supporting Table SA10 Funding measurement: indicator no. 6

The collection rate for calculating the provision for impairment of receivables must be based on past and present experience. Past experience refers to the collection rates of the prior years and present experience refers to the collection rate of the current financial year as from 1 July.

It is not permissible to project a collection rate higher than the current rate. Any improvement in collection rates during the budget year may be appropriated in an Adjustments Budget.

2.8.4.5 DEBT IMPAIRMENT EXPENSE AS A PERCENTAGE OF BILLABLE REVENUE[8]

This indicator provides information as to whether the contribution to the provision for impairment of receivables is adequate. In theory it should be equal to the difference between 100per cent and the cash collection rate, but other factors such as past performance can have an influence on it. Excessive differences should be motivated and/or explained in the MTREF budget report.

2.8.4.6 BORROWING AS A PERCENTAGE OF CAPITAL EXPENDITURE (EXCLUDING GRANTS AND CONTRIBUTIONS)[9]

This indicator provides information as to compliance with the MFMA in determining borrowing needs. The Accounting Officer must ensure compliance with the municipality's liability management.

2.8.4.7 GRANT REVENUE AS A PERCENTAGE OF GRANTS AVAILABLE[10]

The percentage attained should never be less than 100per cent and the recognition of expected unspent grants at the current year-end as revenue in the next financial year must be substantiated in a report.

2.8.4.8 CONSUMER DEBTORS CHANGE (CURRENT- AND NON-CURRENT)[11]

The object of the indicator is to determine whether budgeted reductions in outstanding debtors are realistic.

Any unacceptably high increase in either current or non–current debtors' balances should be investigated and reported.

2.8.4.9 REPAIRS AND MAINTENANCE EXPENDITURE LEVEL[12]

Property Plant and Equipment should be maintained properly at all times in order to ensure sustainable service delivery. The budget should allocate sufficient resources to maintain assets and care should be exercised not to allow a declining

[8] Supporting Table SA10 Funding measurement: indicator no. 7
[9] Supporting Table SA10 Funding measurement: indicator no. 8
[10] Supporting Table SA10 Funding measurement: indicator no. 10
[11] Supporting Table SA10 Funding measurement: indicator no. 11 and 12
[12] Supporting Table SA10 Funding measurement: indicator no. 13

maintenance program in order to fund other less important expenditure requirements.

Similarly, if the maintenance requirements become excessive, it could indicate that a capital renewal strategy should be implemented or reviewed.

As a general benchmark the maintenance budget infrastructure assets should be 8 per cent of the asset values (write down values). Currently the ratio is below this and the benchmark should be achieved within the next ten years.

Where the budgeted amounts for repairs and maintenance reflected on Table A9 are less than 8 per cent of the asset value (write down value) of the municipality's Plant Property and Equipment (PPE) as reflected in the municipality's annual financial statements, the municipality must provide a detailed explanation and assurance that the budgeted amount is adequate to secure the ongoing health of the municipality's infrastructure supported by reference to its asset management plan or disclosure of determination of the repairs and maintenance per asset class in the MTREF budget report.[13]

Should the municipality receive an audit qualification related to its assets register, where the budgeted amounts for repairs and maintenance reflected on TableA9 are less than 10 per cent of the municipality's operating expenditure on Table A4, the municipality must provide a detailed explanation and assurance that the budgeted amount is adequate to secure the ongoing health of the municipality's infrastructure supported by reference to its asset management plan.[14]

2.8.4.10 ASSET RENEWAL/REHABILITATION EXPENDITURE LEVEL[15]

This indicator supports further the indicator for repairs and maintenance.

The Accounting Officer must, as part of the capital budget, indicate whether each project is a new asset or a replacement/renewal asset in order to determine whether the renewal program is sufficient or needs revision.

Where the municipality allocates less than 40 per cent of its Capital Budget (as reflected on Table A8) to the renewal of existing assets it must provide a detailed explanation and assurance that the budgeted amount is adequate to secure the ongoing health of the municipality's infrastructure supported by reference to its asset management plan.[16]

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[13]Based on MFMA Circular 55, paragraph 4.2
[14] MFMA Circular 55, paragraph 4.2
[15] Supporting Table SA10 Funding measurement: indicator no. 14
[16] MFMA Circular 55, paragraph 4.2

3. SECTION B: RESERVES POLICY

3.1 INTRODUCTION

Fund accounting historically formed the major component of municipal finance in the Institute for Municipal Finance Officers (IMFO) standards.

After the change to General Recognised Accounting Practices (GRAP), fund accounting is no longer allowed.

However, the municipality recognises the importance to itself, its creditors, financiers, staff and the general public of providing for a measure of protection for future losses, as well as providing the necessary cash resources for future capital replacements and other current and non-current liabilities.

This policy therefore aims to provide for a measure of protection by creating certain reserves.

3.2 LEGAL REQUIREMENTS

There are no specific legal requirements for the creation of reserves, except for the Housing Development Fund. The GRAP Standards themselves do not provide for reserves.

The GRAP "Framework for the Preparation and Presentation of Financial Statements" states in paragraph 91 that such reserves may be created, but "Fund Accounting" is not allowed and any such reserves must be a "legal" reserve, i.e. created by law or Council Resolution.

3.3 TYPES OF RESERVES

Reserves can be classified into two main categories being “cash funded reserves” and “non – cash funded reserves”.

3.10.1 CASH FUNDED RESERVES

In order to provide for sufficient cash resources for future expenditure, the municipality hereby approves the establishment of the following reserves:

(a) Capital Replacement Reserve (CRR)

The CRR is to be utilised for future capital expenditure from own funds and may not be used for maintenance or other operating expenditure.

The CRR must be cash–backed and the Accounting Officer is hereby delegated to determine the contribution to the CRR during the compilation of the annual financial statements. The cash proceeds on the sale of immovable assets such as land and buildings and augmentation fees, will be transferred to the CRR in order to build resources for the acquisition of future assets.

~~(a)~~ ~~**Employee benefits reserve**~~

~~The aim of this reserve is to ensure sufficient cash resources are available for the future payment of employee benefits.~~

~~The contributions to the reserve must be made upon the discretion of the Accounting Officer during the compilation of the annual financial statements, when available cash surpluses are evaluated.~~

~~(a)~~ ~~**Non-current provisions reserve**~~

~~The aim of this reserve is to ensure sufficient cash resources are available for the future payment of non – current provisions.~~

~~The contributions to the reserve must be made upon the discretion of the Accounting Officer during the compilation of the annual financial statements, when available cash surpluses are evaluated.~~

~~(a)~~ ~~**Valuation reserve**~~

~~The aim of this reserve is to ensure sufficient cash resources are available to undertake a General Valuation as per the Municipal Property Rates Act.~~

~~The contribution to this reserve should be made upon the discretion of the Accounting Officer during the compilation of the annual financial statements, when available cash surpluses are evaluated.~~

~~**Other statutory reserves**~~

~~It may be necessary to create reserves prescribed by law, such as the Housing Development Fund. The Accounting Officer must create such reserves according to the directives in the relevant laws.~~

3.10.2 NON – CASH FUNDED RESERVES

On occasion it is necessary to create non – cash funded reserves. The Accounting Officer must create any reserves prescribed by the accounting standards, such as the Revaluation Reserve and Valuation Reserve, if required.

The Accounting Officer is delegated to create reserves for future depreciation offsetting, in the absence of a standard similar to IAS 20.

3.4 ACCOUNTING FOR RESERVES

3.4.1 REVALUATION RESERVE

The accounting for the Revaluation Reserve must be done in accordance with the requirements of GRAP 17.

3.4.2 OTHER RESERVES

The accounting for all other reserves must be processed through the Statement of Financial Performance. The required transfer to or from the reserves must be processed in the Statement of Net Assets to or from the accumulated surplus.

It is a condition of GRAP and this policy that no transactions may be directly appropriated against these reserves.

4. SECTION C: REVIEW OF THE POLICY

This Funding and Reserves Policy is the only policy of the municipality and replaces any past policies in this regard. Any revision of this policy must be approved by Council.

This policy must be reviewed and submitted for consideration by Council on an annual basis. Such submission must be accompanied with a full description of the reasons for the change to the policy.

APPENDIX A

RECONCILIATION OF CASH REQUIREMENTS

Cash flow from operating activities	R XX
Add : Depreciation from own funds	R XX
Add : Contribution to provisions	R XX
Add : Contribution to CRR	R XX
Add : Contribution to Employee Benefits reserve	R XX
Add : Contribution to Valuation reserve	R XX
Add : Unspent conditional grants	R XX
Add : Unspent public contributions	R XX
Add : Unspent borrowings	R XX
Add : VAT due to SARS	R XX
Add : Secured investments	R XX
Add : Cash portion of Statutory Reserves	R XX
Add : Working Capital Requirements	R XX
= Minimum Cash Surplus Requirements for the year	R XX

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ASSET MANAGEMENT POLICY

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OBJECTIVE

- To ensure the effective and efficient control of the municipality's assets through – (a) proper recording of assets from authorization to acquisition and to subsequent disposal, (b) providing for safeguarding procedures, (c) setting proper guidelines as to authorized utilisation, and (d) prescribing for proper maintenance.
- To assist officials in understanding their legal and managerial responsibilities with regard to assets.

2. BACKGROUND

- The proper utilization and management of assets is one of the prime mechanisms by which a municipality can fulfil its constitutional objectives for:
  - Delivery of sustainable services;
  - Promotion of Social and economic development;
  - Promoting a safe and healthy environment and,
  - Providing for the basic needs to the community.
- The municipality has a legal and moral obligation to ensure it implements policies to provide for the effective and efficient usage of its assets over the useful life thereof.
- The asset management policy deals with the municipal rules required to ensure the enforcement of appropriate stewardship of assets.
- Stewardship has three components being the:
  - Management, utilization and control by the Municipal Officials.
  - Financial administration by the Chief Financial Officer, and
  - Physical administration by the Officer: Assets
- Statutory provisions exist to protect public property against arbitrary and inappropriate management or disposal by a local government.
- Accounting standards are set to ensure the appropriate financial treatment for property, plant and equipment. The requirements of these accounting standards include:
  - The compilation of asset registers recording all assets controlled by the municipality.
  - Accounting treatment for the acquisition, disposal, recording and depreciation of property, plant and equipment.
  - The standards to which these financial records must be maintained.

3. DEFINITIONS

"Accounting Standards Board" was established by the Public Finance Management Act to set standards of Generally Recognized Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa.

"Amortisation" is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

"Assets" are resources controlled by the municipality as the result of past events and from which future economic benefits or future service potential are expected to flow to the municipality and for the purpose of this policy refers to property, plant and equipment but excludes Investment Properties.

"Asset categories" are the six main asset categories defined as follows:

- **Infrastructure assets** – are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewage purification and trunk mains, transport terminals and car parks.

- **Community assets** – are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.

- **Heritage assets** – are defined as culturally significant resources. Examples are works of art, historical buildings and statues.

- **Investment properties** – are defined as properties that are acquired for economic and capital gains. Examples are office parks and under-developed land acquired for the purpose of resale in future years.

- **Intangible assets** – are identifiable assets without physical substance.

- **Other assets** – are defined as assets utilized in normal operations. Examples are plant, equipment, motor vehicles and furniture and fittings.

"Asset register" is the control register recording the financial and other key details for all municipal assets recognized in accordance with this policy

"**Basic Municipal Services"** means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment.

"Capitalisation" is the recognition of expenditure as an Asset in the financial records and in the Asset Register.

"Carrying amount" is the amount at which an asset is included in the financial statements after deducting any accumulated depreciation and accumulated impairment thereon from the recorded value thereof.

"Control items" are items of assets that are not significant enough for financial recognition but are valuable enough to warrant special safeguarding.

"Cost" is the amount of cash or cash equivalents paid, or the fair value of the other consideration given or received to acquire an asset at the time of its acquisition or construction.

"Cost of acquisition" is all the costs incurred in bringing an asset item to the required condition and location for its intended use.

"Depreciation" is the systematic allocation of the depreciable amount of an asset over its useful life.

"Depreciable amount" is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

"Fair value" is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.

"Fixed asset register" (FAR) is the control register recording the financial and other key details for all municipal assets recognized in accordance with this policy.

"Granting of rights" means the granting by the municipality of the right to use, control or manage capital assets in circumstances where sections 14 & 90 of the

MFMA and Chapters 2 & 3 of the Municipal Asset Transfer Regulations do not apply. In other words, where the granting of such rights does not amount to "transfer" or "disposal" of the asset and which includes leasing, letting hiring out, etc, of the capital asset. It also means a right to use, control or manage the capital asset for a period exceeding one calendar month without ceding legal ownership in the asset

"GRAP" is Standards of Generally Recognised Accounting Practice

"Impairment loss" of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

"**Impairment loss" of a non-cash-generating asset** is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

"Manager" means each senior manager and each municipal official exercising financial management responsibilities.

"Prescribe" means as prescribed by the Minister of Finance by regulation.

"Property, plant and equipment" (PPE) means tangible assets that:

(a) Are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and

(b) Are expected to have a useful life extending for more than one financial year.

"Recoverable amount" is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.

"Residual value" is the net amount which the entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

"Senior Management" means officials who are responsible for managing the respective votes of the municipality and to whom powers and duties for this purpose have been delegated in terms of section 79 of the MFMA.

"Useful life" is either:

(a) The estimated period of time over which the future economic benefits or future service potential embodied in an asset are expected to be consumed by the municipality.

Or

(b) The estimated total service potential expressed in terms of production or similar units that is expected to be obtained from the asset by the municipality.

STATUTORY AND REGULATORY FRAMEWORK

This policy must comply with all relevant legislative requirements including:

- The Constitution of the Republic of South Africa, 1996
- Municipal Structures Act, 1998
- Municipal Systems Act, 2000
- Division of Revenue Act (enacted annually)
- Municipal Finance Management Act No 56 of 2003

Also, this policy must comply with the standards specified by the Accounting Standards Board. The relevant currently recognized accounting standards include:

- GRAP 17 - Property, plant equipment;
- GRAP 16 – Investment Properties;
- GRAP 101 - Agriculture; and
- GRAP 102 – Intangible Assets.

This policy does not overrule the requirement to comply with other policies such as Supply Chain Management or Budget policies.

5. RESPONSIBILITIES AND ACCOUNTABILITIES

The Municipal Manager is responsible for the management of the assets

of the municipality, including the safeguarding and the maintenance of

those assets.

The Municipal Manager must take all reasonable steps to ensure that:

- The municipality has and maintains a management, accounting and information system that records all the assets of the municipality;

- The municipality's assets are valued in accordance with recognised standards as prescribed by statutes and/or regulations;
- That the municipality has and maintains a system of internal control of assets, including an asset register; and
- That Senior Management comply with this policy.

The Chief Financial Officer is responsible to the Municipal Manager to ensure that the financial investment in the municipalities' assets is properly recorded.

The Chief Financial Officer must take all reasonable steps to ensure that:

- Appropriate systems of financial management and internal controls are established and carried out diligently;
- The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;
- Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- The systems, processes and registers required to substantiate the financial values of the municipality's assets are maintained to standards sufficient to satisfy the requirements of all statutes;
- Financial processes are established and maintained to ensure the municipality's financial resources are optimally utilized through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
- The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
- The Senior Managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;

The Chief Financial Officer may delegate or otherwise assign responsibility for performing these functions but will remains accountable for ensuring these activities are performed.

The Managers must take all reasonable steps to ensure that:

- Appropriate systems of physical management and controls are established and carried out for assets in their areas of responsibility;
- The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
- The assets under their control are appropriately safeguarded and maintained to the extent necessary and that risk management systems are in place and applied.

- Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- The asset management systems and controls can provide an accurate, reliable and up to date record of assets under their control.
- They are able to justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives.
- The purchase of assets complies with all municipal policies and procedures.

- All moveable property, plant and equipment is duly processed and identified and inspected as being in order before it is received into their stewardship.
- All moveable assets received into their stewardship are appropriately safeguarded against inappropriate use or loss. This will include control over the physical access to these assets and regular stock takes to ensure that no losses have occurred. Any known losses should be immediately reported to the Chief Financial Officer.
- Assets are appropriately utilized for the purpose for which the municipality acquired them.

The Manager may delegate or otherwise assign responsibility for performing these functions but will remain ultimately accountable for ensuring these activities are performed.

6. FINANCIAL MANAGEMENT

6.1 Pre-Acquisition Planning

- Before a capital project is included in the budget for approval, the Manager must demonstrate and the Council must consider;
  - The projected cost over all the financial years until the project is operational;
  - The future operational costs and revenue of the project, including tax and tariff implications;
  - The financial sustainability of the project over its life including revenue generation and subsidisation requirements;
  - The physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation;
  - The inclusion of this capital project in the integrated development plan and future budgets: and
  - Alternatives to this capital purchase.

- The Chief Financial Officer is accountable to ensure the Manager receives all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.

6.2 Approval to Acquire Property Plant and equipment

- Expenditure can only be incurred on a capital project if:
  - The funds have been appropriated in the capital budget,
  - The project, including the total cost and funding sources, has been approved by Council,
  - The Chief Financial Officer confirms that funding is available for that specific project, and
  - Any contract that will impose financial obligations beyond two years after the budget year is appropriately disclosed.

6.3 Funding of capital projects

- Within the municipality's ongoing financial, legislative and administrative capacity, the Chief Financial Officer will establish and maintain the funding strategies that optimise the municipality's ability to achieve its strategic objectives as stated in the integrated development plan.
- The acquisition of assets will not be funded over a period longer than the useful life of that asset.

6.4 Disposal of assets

- The municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of an asset needed to provide the minimum level of basic municipal services, unless such asset is obsolete or surplus to requirements or beyond a state of good repair or being replaced and provided that the delivery of the minimum level of basic municipal services is not compromised as a result of the disposal of the asset.
- The municipality may transfer ownership or otherwise dispose of an asset other than one contemplated above or moveable assets having an estimated carrying value above R50 000, but only after the Council, in a meeting open to the public:
  - *Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services, and*
  - *Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.*

- The decision that a specific asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset had been sold, transferred or otherwise disposed of.
- The disposal of an item of property, plant or equipment must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management and the Supply Chain Management Policy of the municipality.
- The transfer of assets to another municipality, municipal entity, national department or provincial department is excluded from these provisions, provided such transfer is being done in accordance with a prescribed regulatory framework.

  The disposal of moveable assets up to a carrying amount of R50 000 per item may be authorised under delegated powers by the Municipal Manager after taking the above-mentioned conditions into account.
- Every manager shall report in writing to the Chief Financial Officer on 31 October and 30 April of each financial year on all assets controlled or used by the department concerned which such manager wishes to alienate by public auction or public tender. The Chief Financial Officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the Council or the Municipal Manager of the municipality, as the case may be, recommending the process of alienation to be adopted.
- Once assets are alienated, the Chief Financial Officer shall adjust the asset register for the current year and shall, for the ensuing year, delete the asset from the accounting records and the asset register.
- All gains and losses realized on the alienation of assets shall be accounted for according to section 11.13 below (Accounting treatment on disposal).

6.5 Loss, theft, destruction or impairment of assets

Every manager shall ensure that any incident of loss, theft, destruction, or material impairment of any asset controlled or used by the department in question is promptly reported in writing to the Chief Financial Officer, to the internal auditor, and – in cases of suspected theft or malicious damage – also to the South African Police Services.

7. INTERNAL CONTROLS

7.1 Asset Register

7.1.1 Establishment and management of the Asset Register

- The Chief Financial Officer will ensure the establishment and maintenance of an asset register containing key financial data on each item of asset that satisfies the criterion for recognition.
- The Asset Controller is responsible for establishing and maintaining any additional registers or records to demonstrate to Managers the physical management of assets under their control.

7.1.2 Contents and maintenance of the Asset Register

- The asset register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of GRAP and any other accounting requirements which may be prescribed.

  The details in the asset register must include:

  - *Description of the asset*
  - *Asset identification number*
  - *Asset classification*
  - *GFS Vote / Sub-vote classification*
  - *Source document and dates*
  - *Purchase price or historical cost*
  - T*he measurement used*
  - *The depreciation methods used*
  - *The useful life of the asset*
  - *The residual value of the asset*
  - *Depreciation charged*
  - *The gross carrying amount*
  - *The accumulated depreciation and accumulated impairment*
  - *Date of acquisition*
  - *Date and value of disposal (if relevant)*
  - *Date on which the asset is retired from use, if not disposed of*
  - *Increases or decreases resulting from revaluations (if relevant)*
  - *Method of calculating recoverable amount*
  - *Any restrictions on title to the asset and Deed numbers*
  - *Location of the asset*
  - *Strategic purpose and if it is required to provide minimum basic service*

- *The Responsible Official managing the asset*
- *The department that controls or uses the asset*
- *Impairment losses incurred during the financial year (and the reversal of such losses, where applicable)*
- *Whether the asset is required to perform basic municipal services*
- *Whether the asset has been used to secure any debt, and – if so - the nature and duration of such security arrangements*
- *The title deed number, in the case of fixed property*

- All managers under whose control any asset falls shall promptly provide the Chief Financial Officer in writing with any information required to compile the asset register, and shall promptly advise the Chief Financial Officer in writing of any material change which may occur in respect of such information.
- An asset shall be recorded in the assets register as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately capitalised as a fixed asset.
- An asset shall remain in the asset register for as long as it is in physical existence. The fact that an asset has been fully depreciated shall not in itself be a reason for deleting it from the register.

7.1.3 Internal Controls over the Asset Register

- Controls relating to the asset register should be sufficient to provide Managers with an accurate, reliable and up-to-date account of assets under their control, in line with the standards specified by the Chief Financial Officer and as required by relevant statutes.
- These controls will include (a) details of the physical management (b) the recording of all acquisitions, assignments, transfers, losses and disposals of assets (c) regular stock-takes and (d) systems audits to confirm the accuracy of the records.
- Identification of assets:

The Chief Financial Officer will establish a system to ensure that each moveable asset bears a unique identification number/ barcode which shall be recorded in the asset register.

Every manager shall ensure that the asset identification system approved for use by the municipality is scrupulously applied to all assets controlled or used by the department in question.

7.2 Physical Controls and Management

7.2.1 Responsibilities of the Asset Controller

- The Asset Controller will undertake an annual stock take of assets as part of the annual reporting process.

7.2.2 The date of acquisition

- The date of acquisition of assets is deemed to be the time when legal title and control passes to the municipality.
- This may vary for different categories of assets but will usually be the point of time when an asset is brought into use or when final payment for that item is approved.

7.3 Transfers between Managers

7.3.1 Permanent transfers to another Manager

- A Manager may transfer an asset under his control provided that another Senior Manager agrees in writing to accept responsibility for that asset. Copies of such approvals must be submitted to the Finance Directorate.
- The Finance Directorate must appropriately amend the Asset register by recording all approved transfers.
- The Manager to whom the asset is transferred must assume accountability for the transferred asset from a date specified in the written communication referred to above.
- A Manager must ensure that assets are appropriately safeguarded for loss, damage or misuse wherever they are located. Safeguarding includes ensuring reasonable physical restrictions.

7.3.2 Relocation or Reassignment of Assets

- A Manager must advise the Chief Financial Officer, in writing, whenever an asset is relocated or reassigned from the location (or base) or cost centre as recorded in the Asset Register.
- In the case of assets such as vehicles being utilized in the normal course of operations away from its base such reporting is not necessary.

7.4 Verification of Assets

- Every manager shall at least annually undertake a complete physical verification of all assets under his control.
- The results of such verification shall be reported to the Chief Financial Officer in the format as required by the Chief Financial Officer.

- The annual verification should be conducted as close to 30th June as possible with the verification report reaching the Chief Financial Officer by not later than 30th June.

7.5 Insurance of assets

- The Chief Financial Officer shall ensure that all movable assets are insured against loss:

  (a) Movable assets should at least be covered against fire and theft and

  (b) Municipal buildings and infrastructure assets identified by individual managers should at least be covered against fire and allied perils.
- The Chief Financial Officer shall recommend to the Council of the municipality, the insured value to be applied to each type of asset: either the carrying value or the replacement value of the asset concerned. Such recommendation shall take due cognizance of the budgetary resources of the municipality.

8. MANAGEMENT AND OPERATION OF ASSETS

8.1 Accountability to manage assets

- Each Manager is accountable to ensure that municipal resources assigned to him are utilized effectively, efficiently, economically and transparently.

  This will entail;

  - Developing appropriate asset management systems, providing, inter alia, for

    (a) Recording of usage of the asset such as logbooks,

    (b) Recording of preventative and maintenance programmes

    (c) Annual assessment of usefulness, condition of asset and remaining useful life,

    (d) Planning for replacement of asset.

- Managers need to manage assets under their control to provide the required level of service or economic benefit at the lowest possible long-term cost.

8.2 Strategic asset management plan.

The Manager will need to develop such a plan that covers:

- Alignment with the Integrated Development Plan
- Operational guidelines,
- Performance monitoring including benchmarking indicators and measurement,
- Maintenance programmes,
- Renewal, refurbishment and replacements plans,
- Disposal and Rehabilitation plans,
- Operational, financial and capital support requirements, and
- Risk mitigation plans including insurance strategies

The operational budgets are the short to medium term plan for implementing strategic asset management plans.

8.3 Reporting on Impeding Issues

- Each Manager shall report to the Municipal Manager on issues that will significantly impede the assets capacity to provide the required level of service or economic benefit.

9 CLASSIFICATION, AGGREGATIONS & COMPONENTS

9.1 Classification of assets

- Any asset recognized as an asset under this policy will be classified according to nationally recognized categories.
- These categories have been specified by the Accounting Standards Board.
- All assets should be classified under the following headings in the Asset Register:

Property, plant and equipment

- land and buildings, including community asset land and buildings (not held as investment assets)
- infrastructure assets (assets which are part of a network of similar assets)
- community assets (resources contributing to the general well-being of the community
- other assets (ordinary operational resources)

Investment property

- investment assets (resources held for capital or operational gain)

The Chief Financial Officer in consultation with the relevant Manager may agree to subdivide these classifications further. This decision will be noted as an amendment to the classification schedule of the municipality and must be endorsed, in writing, by the Municipal Manager, the Chief Financial Officer and the relevant Manager.

Intangible assets

- Assets without physical substance

Heritage assets

- Culturally significant asset resources

9.2 Optional Treatment for Major Components

- A Manager must, with agreement of the Chief Financial Officer, treat major components of an item of property plant or equipment as a separate asset for the purposes of this policy.
- These major components may be defined by its physical parameters (e.g. a reservoir or roof) or its financial parameters.
- In agreeing to these treatments the Manager must be satisfied that these components:
    - *Have significantly a different useful life or usage pattern to the Main asset,*
    - *Align with the asset management plans,*
    - *Justify the costs of separate identification,*

- *Have probable future economic benefits or potential service delivery associated with the asset which will flow to the municipality,*
- *Is such that the cost of the asset to the municipality can be measured reliably,*
- *Is such that the municipality has control over the asset, and*
- *Is such that the asset is expected to be used during more than one financial year.*

- All such decisions and agreements will be confirmed before the beginning of the financial year and submitted for approval with the budget. Any amendments will only be permitted as part of a budget review (i.e. once or twice during the year).
- Once a major component is recognized as a separate asset, it may be acquired, depreciated and disposed of as if it was a separate asset.

10 ACCOUNTING FOR ASSETS

10.1 Recognition of assets.

- An item of property, plant or equipment will be recognized as an asset when:
  - *It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality,*
  - *The cost of the asset to the municipality can be measured reliably,*
  - *The municipality has control over the asset, and*
  - *The asset is expected to be used during more than one financial year.*

10.2 Initial measurement

- An item of property, plant or equipment that qualifies for recognition as an asset should be initially measured at its "cost of acquisition".
- The "cost of acquisition" usually include the following:
  - *Purchase costs (less any discounts given)*
  - *Delivery costs*
  - *Installation costs*
  - *Professional fees for architects and engineers*
  - *Import duties*
  - *Non-refundable taxes*

- *Site development costs*
- *Contractor fees*
- *Fees for legal, financial, advisory, trustee, credit rating, other services and other costs directly connected to the financing*

10.3 Donations or exchanges

- Where an item of property plant or equipment is acquired at no cost, or for a nominal cost, it will be initially measured at its fair value as at the date of acquisition and included in the asset register.

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10.4 Carrying amount of assets

- Subsequent to initial recognition as an asset, an item of property, plant or equipment should be carried at its cost of acquisition less any accumulated depreciation and accumulated impairments, as adjusted for subsequent revaluations or write downs.
- The only exceptions to this rule shall be revalued assets (Land and Buildings and Investment Assets) as well as heritage assets in respect of which no value is recorded in the asset register (see part 11.19 below)

10.5 Depreciation

- All assets, except land, assets under construction and heritage assets, shall be depreciated – or in the case of intangible assets, amortised.
- The depreciable amount of an item of property, plant or equipment should be allocated on a systematic basis over its useful life.
- The depreciable amount of an asset is determined after deducting the residual value of the asset. In practice, the residual value of an asset is often insignificant and, therefore, is immaterial in the calculation of the depreciable amount.
- When the benchmark treatment is adopted and the residual value is likely to be significant, the residual value is estimated at the date of acquisition. The estimate is based on the residual value prevailing at the date of the estimate for similar property assets that have reached the end of their useful lives and have operated under conditions similar to those under which the property asset will be used.

- The depreciation charge for each period will be recognized as an expense against the budget of the relevant Manager.
- The depreciation method used shall reflect the pattern in which the assets' future economic benefits or service potential are expected to erode the value of the asset.
- A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include

  (a) The straight-line method,

  (b) The diminishing balance method and

  (c) The units of production method.
- Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change.
- The diminishing balance method results in a decreasing charge over the useful life.
- The units of production method results in a charge based on the expected use or output.
- The method of depreciation is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.
- The preferred depreciation method will be the straight-line method unless otherwise agreed to in writing by the Chief Financial Officer.
- Depreciation shall initially be calculated from the day the asset is available for use.
- Each manager, acting in consultation with the Chief Financial Officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.
- The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other assets.

10.6 Initial determination of useful life

- Each Manager needs to determine the useful life of a particular item or class of asset through the development of a strategic asset management plan. The determination of useful life should be developed as part of any pre-acquisition planning that would consider, inter alia, the following factors:

- The program that will optimize the expected long term costs of owning that asset,
- Economic obsolescence because it is too expensive to maintain,
- Functional obsolescence because it no longer meets the municipality's needs,
- Technological obsolescence,
- Social obsolescence due to changing demographics, and
- Legal obsolescence due to statutory constraints

- A schedule of useful lives is included as an annexure. These should be used as a guide only because asset lives experienced may greatly vary from those recommended lives.
- Spares purchased specifically for a particular asset or class of assets at the time of the initial acquisition and which would become redundant if that asset or class was retired or use of that asset or class was discontinued, must be considered to form part of the historical cost of that asset or class. The depreciable amount of such spares must be allocated over the useful life of the asset or class.

10.7 Review of useful life and residual value

- Only the Chief Financial Officer in consultation with the responsible manager may amend the useful operating life or the residual value assigned to any asset.
- The Chief Financial Officer shall amend the useful operating life or the residual value assigned to any asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.
- If the value of an asset item of PPE has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed asset shall be written off from the date in which such diminution in value occurs.
- Similarly, if an asset has been lost, stolen or damaged beyond repair, it shall be written off the asset register.
- The useful life and the residual value of an item of property, plant or equipment must be reviewed annually and if these revised expectations are significantly different from previous estimates, then the depreciation charge for the current and future periods must be adjusted and the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question.

10.8 Review of depreciation method.

- The depreciation method applicable to a class of asset must be reviewed annually, and if there has been a significant change in the expected pattern of economic benefits or potential service delivery from those assets, the method must be changed to reflect the changed pattern.

- When such a change in depreciation method is necessary the change must be reflected as a change in the accounting estimate and the depreciation charge for the current and future periods should be adjusted.

10.9 Subsequent expenditure on assets

- Subsequent expenditure relating to an item of property, plant or equipment that has already been capitalised must be added to the carrying amount of the asset when such expenditure will increase the useful life of the asset or increase the efficiency of the asset or reduce the cost of operating the asset and resulting in financial or service delivery benefits.
- All other expenditure must be recognized as an expense in the period in which it occurred.
- Before allowing the capitalization of subsequent expenditure, the Chief Financial Officer must be satisfied that this expenditure will significantly:
    - Increase the life of that asset beyond that stated in the asset register, or
    - Increase the quality of service provided by that asset beyond the existing level of service, or
    - Increase the quantity of services that asset can provide, or
    - Reduce the future assessed costs of maintaining that asset.
- Expenditure that is proposed to be capitalized must also conform to recognition criteria for assets and should also be appropriately included in the approved capital budget.

10.10 Impairment losses

The accounting treatment relating to impairment losses is outlined as follows:

- The carrying amount of an item or a group of identical items of property, plant and equipment should be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount.

- When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognised as an expense immediately, unless it reverses a previous revaluation in which case it should be charged to a non-distributable reserve.
- The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all of the plant and equipment in a sewerage purification works is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of recoverable amount.
- The following may be indicators that an asset is impaired:
  - The asset has been damaged.
  - The asset has become technologically obsolete.
  - The asset remains idle for a considerable period either prior to it being put into use or during its useful life.
  - Land is purchased at market value and is to be utilized for subsidized housing developments, where the subsidy is less than the purchase price.
- The following steps will have to be performed regularly during the year to account for impairment losses:
  - Departments will identify and inform CFO – Asset Control of assets that:
    - » Are in a state of damage at year end.
    - » Are technologically obsolete at year end. .
    - » Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life.
    - » Are subject to impairment losses because the subsidies to be received in exchange for assets are less than the carrying amounts. An example of this is land that is purchased at market value and is to be utilized for subsidized housing developments.
- The recoverable amounts of these assets need to be determined by calculating the net selling price per asset as defined above.
- The impairment loss per asset is the difference between the net selling price and the carrying value of the asset.

10.11 Subsequent increase in recoverable amount

- A subsequent increase in the recoverable amount of an asset, previously impaired due to a decline in the carrying amount, should be written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- The amount written back should be reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

10.12 Accounting treatment on Disposal

- An asset should be eliminated from the financial records on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery is expected from its existence.
- Gains or losses arising from the retirement or disposal of an asset should be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset, and should be recognized as revenue or expense in the financial records.
- Gains realized on the alienation of assets shall only be appropriated annually to the municipality's Capital Replacement Reserve in terms of an approved budget (except in the cases below), and all losses on the alienation of assets shall remain as expenses on the statement of financial performance of the department or vote concerned. If, however, both gains and losses arise in any one financial year in respect of the alienation of the assets of any department or vote, only the net gain (if any) on the alienation of such assets shall be appropriated.

10.13 Reinstatement, maintenance and other expenses

Only expenses incurred in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset) or in the material extension of the useful operating life of a fixed asset shall be capitalised.

Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalised, irrespective of the quantum of the expenses concerned.

Expenses which are reasonably ancillary to the bringing into operation of a fixed asset may be capitalised. Such expenses may include but need not be limited to import duties, forward cover costs, transportation, installation, and assembly and communication costs.

The following matrix will assist in distinguishing capital expenditure from maintenance expenditure:-

CAPITAL EXPENDITURE	MAINTENANCE
• Acquiring a new asset • Replacing an existing asset • Enhancing an existing asset so that its use is expanded • Further developing an existing assets so that its original useful life is extended	• Restoring an asset so that it can continue to be used for its intended purposes • Maintaining an asset so that it can be used for the period for which it was initially intended

10.14 Assets held under leases

Finance leases are leases, which in effect transfer all risks and rewards associated with the ownership of an asset from the lessor to the lessee. Assets held under finance leases are capitalized by the municipality and reflected as such in the Asset Register. It will be capitalized at its leased value at commencement of the lease, which will be the price stated in the lease agreement, or a price calculated after taking into account reasonable interest on the payments over the period of the lease. The asset is then depreciated over its expected useful life.

Operating leases are those leases which do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due.

Assets held under operating leases are not accounted for in the asset register.

10.15 Investment property

- Investment assets shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's financial statements.

- Investment assets comprise land or buildings (or parts of buildings) or both held by the municipality, as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both.

- Investment assets shall be recorded in a separate section of the assets register in the same manner as other assets.

- Investment assets shall not be depreciated, but shall be valued annually at financial statements date to determine their fair market value. Investment assets shall be recorded in the financial statements at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records.

- An expert valuer shall be engaged by the municipality to undertake such valuations unless such expertise is available in-house.

10.16 Assets treated as inventory

- Any land or buildings owned or acquired by the municipality with the intention of reselling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of reselling it in the ordinary course of business, shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the municipality's financial statements.
- Such inventories shall, however, be recorded in a separate section of the assets register in the same manner as assets.

10.17 Recognition of heritage assets in the asset register

- Heritage assets shall be accounted for in terms of GRAP 103 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's financial statements.
- Heritage assets shall be recorded in a separate section of the assets register in the same manner as other assets.

- Heritage assets shall not be depreciated, but shall be valued annually at financial statements date to determine their fair market value. Heritage assets shall be recorded in the financial statements at such fair value.

- An expert valuer shall be engaged by the municipality to undertake such valuations unless such expertise is available in-house.

- If no original costs or fair values are available in the case of one or more or all heritage assets, the Chief Financial Officer may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the asset register without an indication of the costs or fair value concerned.

- For financial statements purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

10.18 Other write-offs of assets

- An asset item, even though fully depreciated, shall be written off only on the recommendation of the manager controlling or using the asset concerned, provided it has been submitted to the Chief Financial Officer for approval.

- Every manager shall report to the Chief Financial Officer on 31 October and 30 April of each financial year on any asset which such manager wishes to have written off, stating in full the reason for such recommendation. The Chief Financial Officer shall consolidate all such reports, and shall submit a recommendation to the Municipal Manager of the municipality on the assets to be written off.
- The only reasons for writing off assets, other than the alienation of such assets, shall be the loss, theft, and destruction or material impairment of the item/s in question.
- In every instance where a not fully depreciated asset is written off, the Chief Financial Officer shall immediately debit to such department or vote the full carrying value of the asset concerned.

10.19 Agricultural assets

- Accounting for such assets shall take place in accordance with the requirements of GRAP 101.
- The Chief Financial Officer, in consultation with the head(s) of department concerned, shall ensure that all such assets, such as livestock and crops, are valued at 30 June each year at fair value less estimated cost of disposal.
- Such valuation shall be undertaken by a valuer specialising in the valuation of the type of agricultural assets concerned.
- Any losses on such valuation shall be debited to the department or vote concerned as an operating expense, and any increase in the valuation shall be credited to the department or vote concerned as operating revenue.
- If any such asset is lost, stolen or destroyed, the matter – if material – shall be reported in writing by the manager concerned in exactly the same manner as though the asset were an ordinary asset.
- Records reflecting the details of agricultural assets shall be kept in a separate section of the asset register or in a separate accounting record and such details shall reflect the information which the Chief Financial Officer, in consultation with the manager concerned, deems necessary for accounting and control purposes.
- The Chief Financial Officer shall annually insure the municipality's agricultural assets, in consultation with the manager concerned.

11. MAINTENANCE OF ASSETS

11.1 Maintenance plans

- Every manager shall ensure that a maintenance plan in respect of infrastructure assets with a value of R100 000 or more is prepared as part of the annual budget preparation process.
- The relevant manager shall request sufficient appropriations in the operating budget to achieve the applicable maintenance plans.
- The manager controlling or using the infrastructure asset in question, shall annually report to Council, not later than 31 May, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned.

11.2 General maintenance of Assets

- Every manager shall be directly responsible for ensuring that all assets are properly maintained and in a manner which will ensure that such assets attain their maximum useful operating lives

12. TRANSFERS OF MUNICIPAL ASSETS

This section is to give effect to the Municipal Asset Transfer Regulations, subject to sections 14 & 90 of the Municipal Finance Management Act (MFMA) and any other applicable legislation.

Subject to the provisions of the Municipal Asset Transfer Regulations:

12.1 moveable assets may be sold either by way of written price quotations, a competitive bidding process, auction or at market related process, whichever is the most advantageous to the municipality;

12.2 immovable properties may:

- Be sold at market related prices except when the public interest or the plight of the poor demands otherwise;

- Let only at market related rates except when the public interest or the plight of the poor demands otherwise and provided that all charges, rates, tariffs, fees or charges relating to the letting of immovable property are annually reviewed.

12.3 Non-exempted capital assets shall be transferred or permanently disposed of strictly in accordance with Chapter 2 of the Municipal Asset Transfer Regulations.

12.4 Exempted capital assets shall be transferred strictly in accordance with Chapter 3 of the Municipal Asset Transfer Regulations.

12.5 The granting of rights (where section 14 & 90 of the MFMA do not apply) by the municipality, shall be executed strictly in accordance with Chapter 4 of the Municipal Asset Transfer Regulations.

13 FINANCIAL DISCLOSURE

- The financial statements must disclose, in respect of each class of asset classified under the categories of infrastructure, community, heritage, investment properties, inventory, biological and other assets the compulsory disclosures as required by the relevant standards of GRAP

INDICATIVE USEFUL LIFE OF ASSETS

Asset Class	Asset Sub-grouping	Useful Life (Yrs)
Land	None	Infinite
Buildings	None	100
Infrastructure	Sewerage	10 – 100
	Electricity	15 – 100
	Water	12 – 182
	Roads	12 – 102
	Security Measures	5 – 50
Community Assets	None	5 – 100
Leased Asset	None	3 – 6
Heritage	None	Indefinite
Other Assets	Bins and Containers	15
	Other	3 – 100
	Office Equipment	2 – 35
	Vehicles and Specialised Vehicles	7 – 50

APPROVAL

Updated and approved in terms of Council resolution _____________________ dated _________________________ that states, "That the Accounting Officer be delegated to adjust the Accounting- and Asset Management Policies in accordance with the requirements of GRAP standards whenever necessary, and that such changes be incorporated into the next report of reviewed budget related policies."

Approved: **Date:**

_________________________________ _______________________

Municipal Manager (Accounting Officer)

KNYSNA MUNICIPALITY

KNYSNA
Municipality
Munisipaliteit
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DRAFT POLICY ON UNAUTHORISED, IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE

Approved by Council on ______________________

CONTENTS

1. BACKGROUND

1.1 The purpose of this policy is to define and regulate unauthorised, irregular or fruitless and wasteful expenditure. The aim is to prevent unauthorised, irregular or fruitless and wasteful expenditure; to identify and investigate unauthorised, irregular or fruitless and wasteful expenditure; to respond appropriately in accordance with the law and to address instances of unauthorised, irregular or fruitless and wasteful expenditure conclusively.

1.2 In terms of section 4(2)(a) of the Municipal Systems Act (MSA) the Council has a duty to use the resources of the municipality in the best interest of the local community. This duty is extended to individual Councillors through the Code of Conduct for Councillors which states that a Councillor must:

i. "perform the functions of office in good faith, honestly and in a transparent manner; and

ii. "at all times act in the best interests of the community and in such a way that the credibility and integrity of the municipality are not compromised."

1.3 Municipalities are often challenged with unauthorised, irregular or fruitless and wasteful expenditure.

2. OBJECTIVE

2.1 The objectives of this policy includes amongst other things:

(a) Emphasising the accountability of employees;
(b) Ensuring that employees have a clear and comprehensive understanding of the procedures they must follow when dealing with unauthorised, irregular or fruitless and wasteful expenditure;
(c) Ensuring that resources made available to employees are utilized efficiently, effectively, economically and for authorised official purposes;
(d) Ensuring that the Municipality's resources are managed in compliance with the MFMA, the Municipal Budget and Reporting Regulations and other relevant legislation; and
(e) Ensure that irregular, unauthorised or fruitless and wasteful expenditure is detected, processed, recorded, and reported timeously.

3. DEFINITIONS

"allocation", in relation to a municipality, means –

(a) a municipality's share of the local government's equitable share referred to in section 214(1)(a) of the Constitution;
(b) an allocation of money to a municipality in terms of section 214(1)(c) of the Constitution;
(c) an allocation of money to a municipality in terms of a provincial budget; or
(d) any other allocation of money to a municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction;

''fruitless and wasteful expenditure'' means expenditure that was made in vain and would have been avoided had reasonable care been exercised. *The phrase 'made in vain' indicates that the municipality derived no value for money from the expenditure or the use of other resources.* Fruitless and wasteful expenditure must fulfill both the conditions in the definition, namely, that it was made in vain and it would have been avoided had reasonable care been exercised.

''irregular expenditure'', in relation to a municipality or municipal entity, means –
(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA, and which has not been condoned in terms of section 170;
(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of ''unauthorised expenditure".

''overspending'' –

(a) In relation to the budget of a municipality, means causing the operational or capital expenditure incurred by the municipality during financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure as the case may be;
(b) In relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or

(c) In relation to expenditure under section 26, means causing expenditure under that section to exceed the limits allowed in subsection (5) of that section.

''unauthorised expenditure'', in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA, and includes –

(a) overspending of the total amount appropriated in the municipality's approved budget;
(b) overspending of the total amount appropriated for a vote in the approved budget;
(c) expenditure from a vote unrelated to the department or functional area covered by the vote;
(d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
(e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of ''allocation'' in the MFMA otherwise than in accordance with any conditions of the allocation; or
(f) a grant by the municipality otherwise than in accordance with the MFMA.

''Vote'' means –

(a) One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different department or functional areas of the municipality; and
(b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

4. REGULATORY FRAMEWORK

4.1 The following Laws and regulations, amongst others, inform this policy:

(a) Section 32 of the MFMA
(b) Sections 170 and 173 of the MFMA
(c) Regulations 23 and 74 of the Municipal Budget and Reporting Regulations
(d) Relevant GRAP statements
(e) MFMA Circular 68 of 2013

5. SCOPE OF APPLICATION

5.1 From a responsibility perspective, this policy is relevant to all employees of the Municipality, whether full-time or part-time. It is, however, specifically applicable to the Council, Accounting Officer, Chief Financial Officer, Senior Manager's, Officials and all employees. In particular, the duly appointed Directors and responsibility managers have significant roles in:

(a) Identifying the identity of the person who is liable for unauthorised, irregular or fruitless and wasteful expenditure.

(b) Deciding on how to recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure.

(c) Determining the amount of unauthorised, irregular or fruitless and wasteful expenditure to be recovered, written off or provided for.

6. RELATIONSHIPS WITH OTHER POLICIES

6.1 The unauthorised, irregular, or fruitless and wasteful expenditure policy has additional parts that cover the unique nature of the broad spectrum of expenditure generated by municipality. These policies are to be managed by all the executive managers. The following parts exist:

(a) System of Delegations
(b) SCM policy
(c) Debit Collection and Credit policy
(d) Debt writing off policy
(e) Budgets and Medium Term Revenue and Expenditure Framework (MTREF)

7. ROLES AND RESPONSIBILITY

7.1 The MFMA outlines the responsibilities of the Accounting Officer which include amongst others:

(a) To exercise all reasonable care to prevent and detect irregular, unauthorised, fruitless and wasteful expenditure and must for this purpose implement effective, efficient and transparent processes of financial and risk management.
(b) To inform, in writing the mayor, executive committee and Council, as the case may be, if a decision is taken which, if implemented, is likely to result in irregular, unauthorised, fruitless and wasteful expenditure.

(c) On discovery of any irregular, unauthorised, fruitless and wasteful expenditure to report promptly in writing, the particulars of the expenditure to the Mayo.

(d) The MFMA further prescribe the process that must be followed to deal with irregular, unauthorised, fruitless, and wasteful expenditure.

8. PRINCIPLES OF UNAUTHORISED EXPENDITURE

8.1 Essentially, “unauthorised expenditure” includes overspending on the total amount of the budget, overspending on a vote, the incurring of expenditure unrelated to a vote and the incurring of expenditure for a purpose other than the approved purpose.

9. PROCESS DEALING WITH UNAUTHORISED EXPENDITURE

9.1 Any employee who becomes aware of, or suspects the occurrence of unauthorised expenditure must immediately report, in writing, such expenditure to the Accounting Officer or his/her delegate.

9.2 On discovery of alleged unauthorised expenditure, such expenditure must be left in the account i.e. relevant vote and the Accounting Officer or his/her delegate should record the details of the expenditure in an unauthorised expenditure register. (Attached as “Annexure A”.)

9.3 The accounting officer or his/her delegate must investigate the alleged unauthorised expenditure to determine whether the expenditure meets the definition of unauthorised expenditure.

9.4 During the period of investigation, the expenditure must remain in the expenditure account. The results of the investigation will determine the appropriate action to be taken regarding the expenditure.

9.5 Should the investigation reveal that the expenditure is in fact valid expenditure and therefore does not constitute unauthorised expenditure the details of the expenditure should be retained in the register for completeness purposes (and to provide an appropriate audit trail). The register must then be updated to reflect the outcome of the investigation.

9.6 If the investigation indicates that the expenditure is in fact unauthorised expenditure the Accounting Officer must immediately report, in writing, the particulars of the expenditure to the Mayor.

9.7 If Council subsequently condones the unauthorised expenditure, the municipality requires no further action as the amount has already been expensed in the statement of financial performance. The register should be updated to reflect the fact that the unauthorised expenditure was condoned.

9.8 If however, the Council does not condone the amount, the accounting officer must take effective and appropriate action to recover the amount from the responsible person.

10. AUTHORISING UNAUTHORISED EXPENDITURE

10.1 In considering authorisation of unauthorised expenditure, Council must consider the following factors:

(a) Has the matter been referred to Council for a determination and decision?

(b) Has the nature, extent, grounds and value of the unauthorised expenditure been submitted to Council?

(c) Has the incident been referred to a Council committee for investigation and recommendations?

(d) Has it been established whether the accounting officer or official or public office bearer that made, permitted or authorised the unauthorised expenditure acted deliberately or in a negligent or grossly negligent manner?

(e) Has the accounting officer informed Council, the mayor or the executive committee that a particular decision would result in an unauthorised expenditure as per section 32(3) of the MFMA?

(f) Are there good grounds shown as to why an unauthorised expenditure should be authorised? For example:

(i) the mayor, accounting officer or official was acting in the best interests of the municipality and the local community by making and permitting unauthorised expenditure;
(ii) the mayor, accounting officer or official was acting in good faith when making and permitting unauthorised expenditure; and
(iii) the municipality has not suffered any material loss as a result of the action.

In these instances, the Council may authorise the unauthorised expenditure. If unauthorised expenditure is approved by Council, there would be no further consequences for the political office-bearers or officials involved in the decision to incur the expenditure.

10.2 **Adjustments budgets to authorise unauthorised expenditure:**

Council may only authorise unauthorised expenditure in an adjustments budget. This can be addressed in three different adjustments budgets as follows:

(a) ***Adjustments budget for unforeseen and unavoidable expenditure:***

An adjustments budget to allow Council to provide ex post authorisation for unforeseen and unavoidable expenditure that was authorised by the mayor in terms of section 29 of the MFMA must be tabled in Council at the “first available opportunity” or within the 60 days after the expenditure was made. Should either of these timeframes be missed, the unforeseen and unavoidable expenditure must be treated in the same manner as any other type of unauthorised expenditure, and may still be authorised in one of the other adjustments budgets process described below.

(b) ***Main adjustments budget***:

Council may authorise unauthorised expenditure in the adjustments budget which may be tabled in Council “at any time after the mid-year budget and performance assessment has been tabled in the Council, but not later than 28 February of the current year”. Where unauthorised expenditure from this period is not identified or investigated in time to include in this adjustments budget, it must be held over to the following adjustments budget process noted below.

(c) ***Special adjustments budget to authorise unauthorised expenditure****:*

Council may authorise unauthorised expenditure in a special adjustments budget tabled in Council when the mayor tables the annual report. This special adjustments budget “may only deal with unauthorised expenditure from the previous financial year which the Council is being requested to authorise in terms of section 32(2)(a)(i) of the Act.”

11. RECOVERY OF UNAUTHORISED EXPENDITURE

11.1 All instances of unauthorised expenditure must be recovered from the liable official or political office-bearer, unless the unauthorised expenditure has been authorised by Council in an adjustment budget.

(a) The Accounting Officer (or his/her delegate) must determine who the responsible party is from whom the amount should be recovered. This information would normally become evident while performing the investigation.

(b) The Accounting Officer (or his/her delegate) must in writing request that the liable official or political office-bearer to pay the amount relating to such unauthorised expenditure within 30 days. If the person/s fails to comply with

the request, the matter may be handed to the municipality's legal division for the recovery of the debt through normal debt collection process.

12. PRINCIPLES ON IRREGULAR EXPENDITURE

12.1 Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Remuneration of Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy or system of delegation.

12.2 Categories of irregular expenditure

Irregular Expenditure incurred as a result of a non-compliance with a Treasury regulation, the MFMA and the Knysna municipal Supply Chain Management Policy.

Example:

Procuring of goods or services by means of quotations where the value of the goods/services exceed the set threshold as determined in the SCM policy quotations.

Irregular Expenditure incurred as a result of procuring goods or services by means of other that through competitive bids where the reason for deviating from the prescribed processes have not been recorded or approved in terms of section 17 of the SCM regulations.

Irregular Expenditure resulting from non-adherence to the delegation of authority as approved.

Irregular Expenditure incurred as a result of expenditure outside contracts or contracts expired and not extended in terms of MFMA section 116.

Expenditure resulting from non-adherence to an institution's delegation of authority is also regarded as irregular expenditure.

12.3 Procedures for the condonation of irregular expenditure

(a) As part of the enclosed procedures (Annexure B), provision is made for accounting officers to forward submissions to the Provincial Treasury or the relevant authority to request condonation for non-compliance with the MFMA or other legislation respectively. The treasury to which the submission must be forwarded will depend on the provision that was contravened. It must, however, be emphasised that submissions requesting condonation for non-compliance must contain detailed motivation as to why the irregular expenditure in question

should be considered for condonation, together with steps that have been taken to avoid a recurrence of this type of irregular expenditure.

(b) It must, however, be emphasised that submissions requesting condonation of irregular expenditure must contain detailed motivation as to why the irregular expenditure in question should be considered for condonation, together with steps that have been taken to avoid a recurrence of the irregular expenditure.

(c) If the irregular expenditure is subsequently condoned by the relevant authority, no further action is required by the department as the amount has already been expensed in the statement of financial performance.
The register must be updated to reflect that the irregular expenditure was condoned and the notes to the annual financial statements must also be updated to reflect the condoned irregular expenditure.

(d) In instances where condonation for irregular expenditure is not granted by the relevant authority, immediate steps must be taken to recover such expenditure from the relevant person, if he/she is liable in law.

(e) If there is doubt regarding liability in law referred to in (d) above, the accounting officer must consult their in house legal services in this regard.

13. PRINCIPLES ON FRUITLESS AND WASTEFUL EXPENDITURE

13.1 No particular expenditure is explicitly identified by the MFMA as fruitless and wasteful.

13.2 Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised.

13.3 Fruitless and Wasteful expenditure will always emanate from an action instigated by an official that resulted in a financial loss to the institution.

13.4 Fruitless and wasteful expenditure can arise from a range of events, activities and actions from a simple oversight in performing an administrative task to a deliberate and/or an intentional transgression of relevant laws and regulations.

13.5 It seems that the most logical approach to address assess whether or not expenditure can be classified as fruitless and wasteful expenditure is to ask a few elementary questions prior to the spending of municipal funds such as:

Did the intended spending relate to the formal powers of the municipality?

A municipality may perform only those functions and powers conferred to it by the Constitution and relevant legislation. Any expenditure incurred relating to an act or

conduct exercised outside those functions and powers will result in fruitless and wasteful expenditure notwithstanding sufficient provision has been made on the budget and correct procedures were followed in incurring the expenditure.

Would the expenditure further the interest of the municipality?

The expenditure incurred to obtain a service, inventory, asset or to render a service, etc. must have been necessary and ideally unavoidable to enable the Municipality to exercise its functions and powers in accordance with the relevant legislation.

Was it essential to incur the intended expenditure?

It is of paramount importance to incur expenditure only when it is really necessary or essential for purposes as mentioned above. One should be satisfied that non-incurrence of such expenditure will have a negative impact on the lawful activities of the Municipality.

Was any other option perhaps available to prevent the intended expenditure or to reduce it?

This question overlap to some extent with question above but it is more specific in the sense that it put pressure on the Municipality to apply its mind and to consider all possible options. Should it appear after the expenditure has been incurred that a more effective and perhaps a less expensive option was at the disposal of the Municipality but that it was ignored or disregarded without good cause the expense will be regarded as fruitless and wasteful.

14. PROCESS DEALING WITH IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE

14.1 Any official who becomes aware of or suspects the occurrence of irregular - or fruitless and wasteful expenditure should immediately report in writing, the particulars of such expenditure which are within his or her knowledge, to the Accounting Officer or his or her delegate;

14.2 Once the Accounting Officer or his or her delegate has received the report alleging the occurrence of irregular - or fruitless and wasteful expenditure, the details of such expenditure must be recorded in a register for irregular or fruitless and wasteful expenditure. An example of such register is attached as “Annexure A";

14.3 The Accounting Officer or his or her delegate should investigate the alleged irregular - or fruitless and wasteful expenditure to determine whether the expenditure meets the definition of irregular or fruitless and wasteful expenditure;

14.4 For accounting records purposes, during the investigation, the expenditure must remain in the expense account i.e. the vote of the department within the municipality. The results of the investigation will determine the appropriate action to be taken regarding such expenditure. Should the investigation reveal that the expenditure is not irregular - or fruitless and wasteful expenditure as defined; the details of the expenditure should be retained in the register for record purposes and to provide a full audit trail. The register must be updated to reflect the outcome of the investigation;

14.5 Should the investigation reveal that the expenditure is irregular - or fruitless and wasteful expenditure as defined above, the Accounting Officer must immediately report, in writing, the particulars of such expenditure to the Mayor. The register must be updated to reflect the outcome of the investigation;

14.6 The Accounting Officer must also include the expenditure in the relevant department's monthly revenue and expenditure report submitted to Council in terms of the MFMA; and

14.7 For accounting records purposes, the irregular - or fruitless and wasteful expenditure must be treated as an asset in the books of the municipality until such time as the expenditure is recovered from the responsible person or certified by Council as irrecoverable and written off in the Annual Financial Statements.

15. ROLE OF COUNCIL COMMITTEE

15.1 In terms of section 74 of the Municipal Budget and Reporting Regulations contained in Government Notice 393 of 17 April, 2009, a Council committee appointed to investigate the recoverability or otherwise of any unauthorised, irregular or fruitless and wasteful expenditure must consider –

(a) the measures already taken to recover such expenditure;
(b) the cost of the measures already taken to recover such expenditure;
(c) the estimated cost and likely benefit of further measures that can be taken to recover such expenditure; and
(d) submit a motivation explaining its recommendation to the Council for a final decision.

15.2 The accounting officer must provide the committee concerned with such information it may require for the purpose of conducting a proper investigation.

15.3 The aforesaid committee may only comprise Councillors and should not include political office bearers of the municipality. At least 3 Councillors are required to constitute a committee.

15.4 It should be noted that the Council is required by resolution to certify that the expenditure concerned is considered irrecoverable and that it should be written off. This power may not be delegated by the Council.

15.5 An audit committee established in terms of section 166 of the Act is not precluded from assisting the appointed committee with its deliberations.

16. INVESTIGATIONS AND DISCIPLINARY ACTIONS

16.1 In terms of sections 172 and 173 of the MFMA, an Accounting Officer is guilty of financial misconduct and an offence respectively if he or she:

(a) willfully or negligently fails to take effective and appropriate steps to prevent unauthorised, irregular or fruitless and wasteful expenditure as required by the MFMA;
(b) fails to take effective and appropriate disciplinary steps against an official in the department who makes or permits unauthorised, irregular or fruitless and wasteful expenditure; and
(c) fails to report unauthorised, irregular or fruitless and wasteful expenditure in terms of the MFMA.

16.2 As soon as the accounting officer becomes aware of an allegation of financial misconduct against an official, the Accounting Officer has a responsibility to ensure that the Mayor initiates an investigation into the matter and if the allegations are confirmed, holds a disciplinary hearing in accordance with the prescripts of the applicable legislation.

16.3 In terms of section 172 of the MFMA, an official of a department to whom a duty or power has been assigned commits an act of financial misconduct if that official will fully or negligently fails to perform that duty or exercise that power in line with applicable legislation.

16.4 In terms of the MFMA, the accounting officer must take appropriate and effective disciplinary steps against an official who makes or permits unauthorised, irregular or fruitless and wasteful expenditure.

16.5 When an accounting officer determines the appropriateness of disciplinary steps against an official in terms of applicable legislation, he or she must take into account the following:
(a) circumstances of the transgression;
(b) extent of the expenditure involved; and
(c) nature and seriousness of the transgression.

16.6 **Ratification of minor breaches of the procurement process**

The accounting officer may ratify any minor breaches of the procurement processes by an official or committee acting in terms of delegated powers or duties which are purely technical in nature provided that this provision is included in the municipality's supply chain management policy and the official or committee who committed the breach had the delegated authority to perform the function.

16.7 **Disciplinary charges for Irregular or Fruitless and Wasteful Expenditure**

If, after having followed a proper investigation, the Council concludes that the political office-bearer or official responsible for making, permitting or authorising irregular expenditure did not act in good faith, then the municipality must consider instituting disciplinary action and/or criminal charges against the liable person/s.

If the irregular expenditure falls within the ambit of the above description, then the Council, mayor or accounting officer (as may be relevant) must institute disciplinary action as follows:

(i) *Financial misconduct in terms of section 171 of the MFMA*: in the case of an official that deliberately or negligently:

- contravened a provision of the MFMA which resulted in irregular expenditure; or
- made, permitted or authorised an irregular expenditure (due to noncompliance with any of legislation mentioned in the definition of irregular expenditure);

(ii) *Breach of the Code of Conduct for Municipal Staff Members:* in the case of an official whose actions in making, permitting or authorizing an irregular expenditure constitute a breach of the Code; and

(iii) *Breach of the Code of Conduct for Councillors*: in the case of a political office-bearer, whose actions in making, permitting or authorizing an irregular expenditure constitute a breach of the Code. This would also include instances where a Councillor knowingly voted in favour or agreed with a resolution before Council that contravened legislation resulting in irregular expenditure when implemented, or where the political office-bearer improperly interfered in the management or administration of the municipality.

16.8 Criminal charges arising from an act of Irregular or Fruitless and Wasteful expenditure:

(a) If, after following a proper investigation, the Council concludes that the official or political office-bearer responsible for making, permitting or authorising an instance of irregular expenditure acted deliberately or negligently, then the Council must institute disciplinary procedures and lay criminal charges against the liable official or political office-bearer.

(b) The irregular expenditure was the result of a breach of the definition of irregular expenditure it must be considered in terms of section 173 of the MFMA.

17. RECOVERY

17.1 Notwithstanding the disciplinary process, the accounting officer must identify the official who is responsible for the unauthorised -, irregular or fruitless and wasteful expenditure.

17.2 The relevant information would normally be evident from the investigation process.

17.3 The amount of the expenditure should be recovered from the official concerned by taking the following steps:

(a) The accounting officer must write to the official concerned and request him or her to pay the amount within 30 days or in reasonable installments.

(b) Reasonable installments will vary from case to case depending on such factors as the total amount involved and the affordability level of the official concerned.

(c) The accounting officer is expected to apply his or her discretion judiciously.

17.4 Should the official refuse or fail to pay as requested, the matter may be referred to an attorney for recovery.

17.5 If the amount is not recoverable, the accounting officer may request Council to certify the debt as irrecoverable and write it off in terms of the municipal adopted policy.

17.6 All instances of irregular expenditure must be recovered from the liable official or political office-bearer, unless the expenditure is certified by the municipal Council, after investigation by a Council committee, as irrecoverable and is written off by the Council.

17.7 Irregular expenditures resulting from breaches of the Public Office-Bearers Act is an exception in that the irregular expenditure must be recovered from the political office-bearer to whom it was paid, who might not have been responsible for making, permitting or authorising the irregular expenditure.

17.8 Once it has been established who is liable for the irregular expenditure, the accounting officer must in writing request that the liable political office-bearer or official pay the amount within 30 days or in reasonable installments. If the person fails to comply with the request, the matter must be recovered through the normal debt collection process of the municipality.

18. REPORTING

18.1 The accounting officer must comply with the following reporting requirements: attached as “Annexure B";

18.2 Immediately upon discovery of unauthorised, irregular or fruitless, and wasteful expenditure, the accounting officer must report the details of the unauthorised, irregular or fruitless, and wasteful expenditure to the Mayor. The report must include the following details:

(a) amount of the unauthorised, irregular or fruitless and wasteful expenditure;
(b) name of the vote from which the expenditure was made;
(c) reason why the unauthorised, irregular or fruitless and wasteful expenditure could not be avoided;
(d) name and title of the responsible official;
(e) details of any recovery steps taken or to be taken by the municipality; and
(f) details of any disciplinary steps taken or to be taken by the municipality.

18.3 The accounting officer must also include the expenditure in the relevant department’s monthly revenue and expenditure report submitted to the Council in terms of the MFMA.

18.4 All unauthorised, irregular or fruitless and wasteful expenditure must be reported as a note to the annual financial statements.

18.5 The Accounting Officer must record the reasons for any deviations in terms of SCM regulations and report to the next Council meeting and disclose this expenditure in a note to the annual financial statements.

19. REGULAR REVIEW OF THE UNAUTHORISED IRREGULAR, OR FRUITLESS AND WASTEFUL EXPENDITURE REGISTER

19.1 The unauthorised, irregular or fruitless and wasteful expenditure register should be reviewed on a monthly basis by the chief financial officer of the municipality. This review will ensure that unauthorised -, irregular or fruitless and wasteful expenditure are adequately disclosed, dealt with, recorded and that no mathematical errors exists.

20. ACCOUNTING TREATMENT OF UNAUTHORISED, IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE

20.1 Unauthorised, irregular or fruitless and wasteful expenditure identified during one financial period, but not paid in the specific period should be recorded in the following financial year.

20.2 The cumulative unauthorised, irregular or fruitless and wasteful expenditure incurred at financial year end should be adequately and appropriately disclosed in the financial statements of the municipality.

20.3 Recognition and measurement of unauthorised, irregular or fruitless and wasteful expenditure shall be treated in terms of the latest available guidelines for the compilation of the Annual Financial Statements issued to municipalities by National Treasury on an annual basis and be in line with the latest GRAP requirements.

20.4 **DISCLOSURE OF UNAUTHORISED, IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE**

MFMA section 125 require accounting officers and accounting authorities to disclose in the notes to the Annual Financial Statements of the municipality particulars of any material unauthorised, irregular or fruitless and wasteful expenditure incurred during the financial year.

20.5 Particulars of any criminal or disciplinary steps taken as a result of such unauthorised, irregular or fruitless and wasteful expenditures should be disclosed in the notes to the Annual Financial Statements.

21. POLICY ADOPTION

This policy has been considered and approved by the Council of Knysna Municipality on the «insert date».

Draft Sequence	Approval Date	Resolution Number
Original	Council -	
Revised	Annually	
Revised	Annually	
Revised	Annually	

____

RESPONSIBLE FOR REVIEWING

ANNEXURE A

REGISTER OF UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

Name of Municipality ___________________________________

Financial Year____

No	Date of discovery	Date Reported to Accounting Officer	Transaction details				Person Liable (Official or Political Office Bearer)	Type of Prohibited Expenditure	Status						
			Date of Payment	Payment Number	Amount	Description of Incident			UI	DP	CC	TR	P	WO	General comments

Abbreviations:

UI: Irregular expenditure Under Investigation
DP: Disciplinary process initiated against responsible person
CC: Criminal charges laid with SAPS
TR: Transferred to receivables for recovery
P: Paid or in process of paying in installments
WO: Written-off by Council as irrecoverable

ANNEXURE B

REPORTING REQUIREMENTS

The following diagram provides guidance as to the reporting requirements regarding unauthorised, irregular, fruitless and wasteful expenditure:

Unauthorised, irregular, fruitless and wasteful expenditure is brought to the attention of the Accounting Officer.

↓

The Accounting Officer must immediately report in writing in terms of section 32(4)(a) and (b) of the MFMA, to the Executive Mayor, MEC for Local Government in the province and the Auditor-General.

↓

The Accounting Officer must in terms of section 32(4)(c)(i)(ii) of the MFMA, implement steps to rectify or recover such expenditure and to prevent a recurrence of such expenditure.

↓

The Accounting Officer must in terms of section 32(6)(a) and (b) of the MFMA, report to the South African Police Services all cases of alleged irregular expenditure that constitute a criminal offence and theft and fraud that occurred in the municipality.

↓

The Accounting Officer tables unauthorised, irregular, fruitless and wasteful expenditure before the Council.

↓

Council has the following responsibilities in terms of section 32(2)(a)(i)(ii) of the MFMA:

1) Authorise the expenditure in the adjustment budget.
2) Certify after investigation by a Council Committee that the expenditure is irrecoverable and approve the write off by the Council.
3) Recommend the recovery of the expenditure from the responsible person

↓

If unauthorised, irregular, fruitless and wasteful expenditure is not condoned the Accounting Officer must:

1. Take appropriate disciplinary steps as required in Section 62 (e) of the MFMA.
2. Recover the amount.

↓

Unauthorised, irregular, fruitless and wasteful expenditure must be reported in the annual report (as a note to the annual financial statements) in terms of section 125(2)(d)(i)-(iii) of the MFMA.

As approved by Council at the Council meeting which was held on …………………………..

Signed at KNYSNA on the ……….. day of ……………………… 201…….

………………………………………….

Executive Mayor

Mr …………………………………

………………………………………….

Executive Deputy Mayor

Mr …………………………………

……………………………………….

Speaker (also on behalf of the Municipal Council)

Ms …………………………………

…………………………………………

Municipal Manager:

KNYSNA MUNICIPALITY

LONG TERM FINANCIAL PLAN

November 2015

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1. SECTION 1: PURPOSE AND KEY OUTCOMES OF THE LONG TERM FINANCIAL PLAN

Section 215 of the Constitution of the Republic of South Africa requires that all National, Provincial and Municipal budgets and budgetary processes promote the following principles -

- Transparency;
- Accountability; and
- The effective financial management of the economy, debt and the public sector.

In order to fulfill this constitutional obligation towards the citizens of South Africa, sound financial principles and policies should be adopted by all municipalities. These policies should ensure that municipalities remain financially viable while also delivering high quality basic services.

The Municipal Budget and Reporting Regulations (section 7) requires the Accounting Officer (Municipal Manager) to prepare, or take all reasonable steps to ensure the preparation of the Budget Related Policies of the municipalities which includes a policy relating to the long term financial plan. This indicates that there must be:

- A Long Term Financial Plan Policy which guides the preparation of a long term financial plan; and
- A Long Term Financial Plan.

The long term financial plan is considered to be one of the most important plans, as this plan does not only incorporate various development and implementation plans for the provision of basic services, it is also aims to assist Municipal- Councillors and Management to make informed decisions relating to the provision of basic services and capital programs and the funding thereof.

Goals and objectives, which constitute the core of the financial plan, should be established for the short term (12 months), medium term (2 – 5 years) as well as the long term (beyond 5 years). These goals and objectives should guide all budget and policy related decisions of the municipality and should directly inform the Municipality's estimated expenditure over the medium to long term.

2. SECTION 2: STRATEGIC ALIGNMENT

The development of the Long Term Financial Plan is an output of financial and other strategies and aims to identify financial imbalances or opportunities and to develop strategies to counteract the imbalances.

The plan is informed, but not limited, to the following:

- Legislative Framework within which the municipality operates;
- Integrated Development Plan;
- Municipal Policies adopted;
- Master plans;
- National Development Plan;
- Provincial Strategic Plans;
- Sector Plans; and
- By-laws.

The National Development Plan identified the following challenges that need to be addressed in all policies in the public sector:

- Too few people work;
- The quality of school education for black people is poor;
- Infrastructure is poorly located, inadequate and under-maintained;
- Spatial divides hobble inclusive development;
- The economy is unsustainably resource intensive;
- The public health system cannot meet demand or sustain quality;
- Public services are uneven and often of poor quality;
- Corruption levels are high; and
- South Africa remains a divided society.

The National Development Plan (NDP) establishes the long term goals and objectives of Government to which all spheres of Government should aim to achieve. Listed below are the relevant sections of the NDP which will have a direct and significant effect on the municipality's long term financial plan:

Indicator	NDP 2030 Target	Knysna 2011 Status
Poverty	Zero households below the R419 monthly income poverty line (2009)	16.4% of Knysna's households had no income. An additional 3.3% earns between R1 - R4 800 annually.
Per capita income	Per capita income of R110 000	Per capita income of R34 791 is already below the starting point of R50 000 per capita on a national level in 2009.
Unemployment	6%	28.3% in 2001 and 24.8% in 2011 is a decreasing trend. This downward trend must be maintained.
	Raise employment in public employment programmes to a national 1 million in 2015 and 2 million by 2030.	The Municipality has to play its part in this regard.
Economic growth	5.4% per annum	4.8% per annum between 2000 and 2011 and 5.6% in 2013.
Access to basic services	Access to electricity at 95%	Access to Electricity at 88.3% in 2011 and 88.5% in 2013.
	Expansion of the renewable energy sources including a national target of 5 million solar water heaters by 2030	
	100% access to clean potable water	94% access to clean water

Service Delivery Backlogs remains one of the major challenges of all municipalities in South Africa. Knysna is no exception to the rule and is also confronted with various backlogs in the municipal area. It is however a balancing act to ensure backlogs are eradicated, while still ensuring that the municipality remains financially viable.

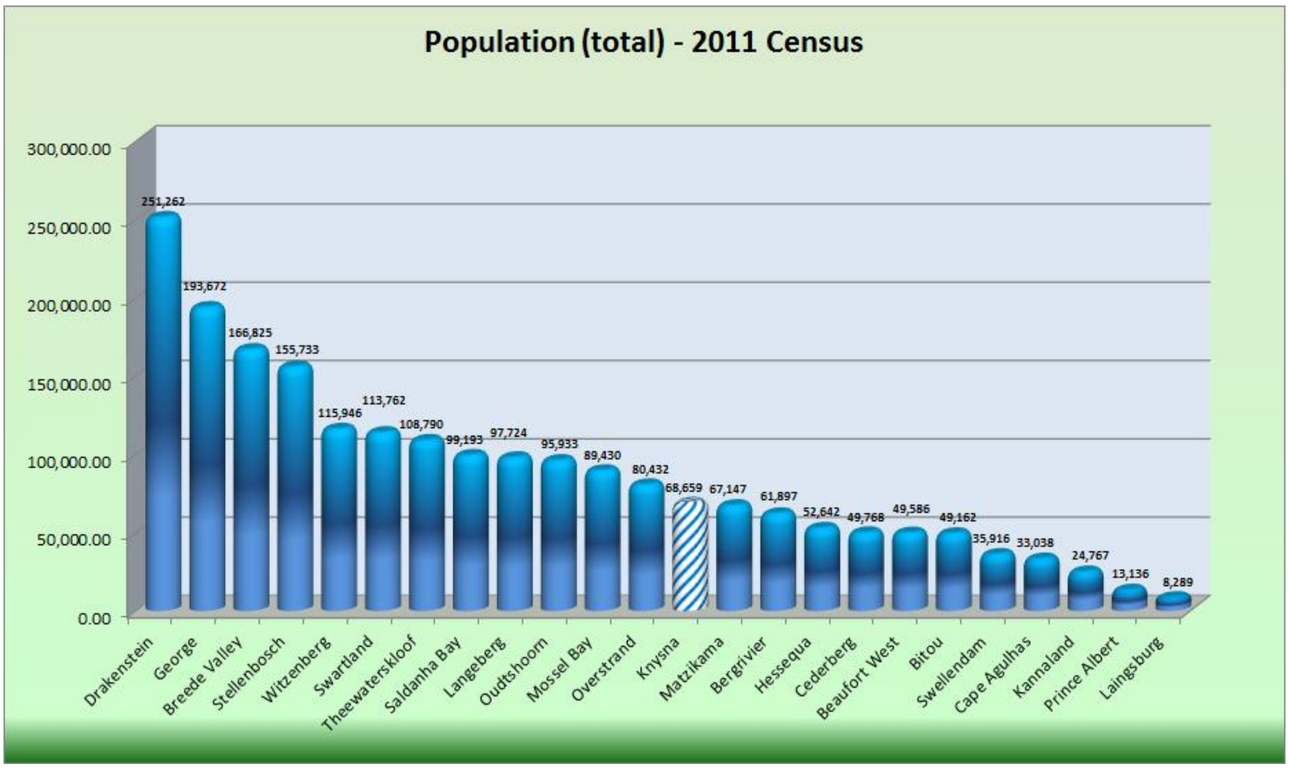
There is currently a need for 9000 houses to be built based on current population numbers. The population growth of and average of 1.37% per annum will increase this requirement significantly in a short space of time. With housing development come the need for bulk infrastructure and available land, both of which is limited in Knysna.

3. SECTION 3: CURRENT REALITIES

3.1 Demographic information and Local Economy Reality

Knysna has a total population of 68 659 (2011 Census). This ranks the population in the municipal area at number 143 when compared to the other municipalities in South Africa. In 2001, the population in the municipal area was 51 475 (2001 Census), which ranked the municipality at number 163.

Compared to other municipalities in the Western Cape, excluding the Cape Town Metro, Knysna is ranked the 13th based on population size.



It is projected that the population will grow at an average annual rate of 1.37% for the period 2011 – 2017. The average annual rate is in line with the overall District projections pertaining to individual municipal increases for the same period.

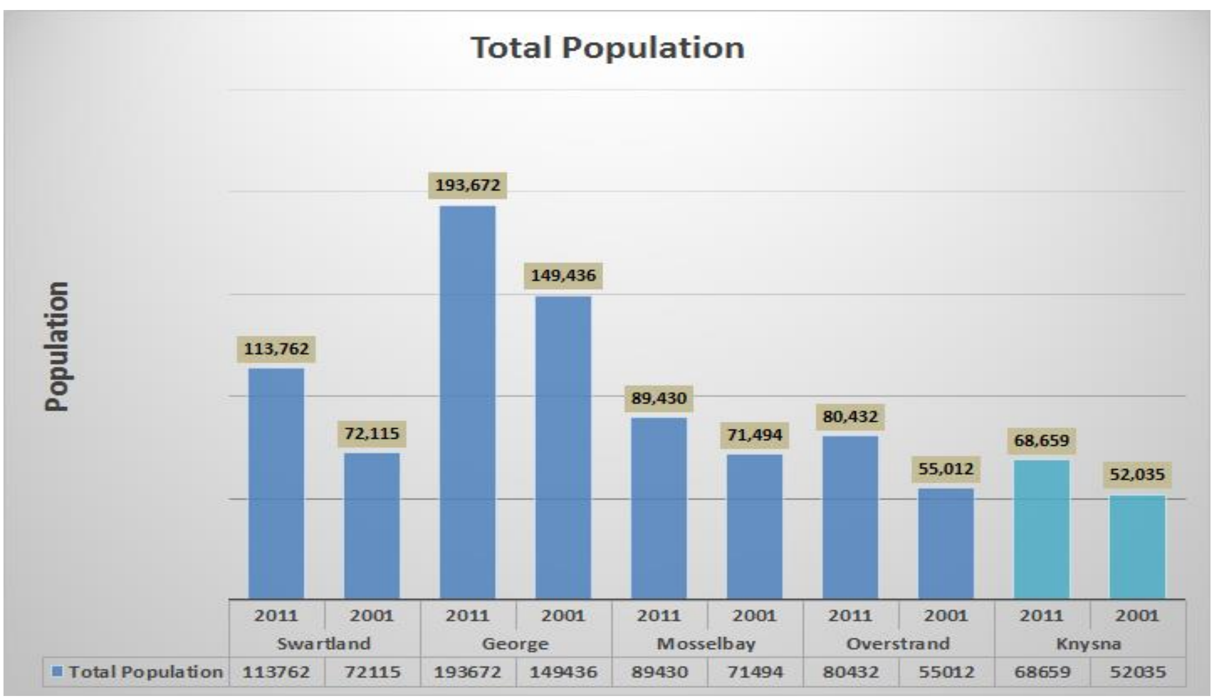
Based on an annual increase of 1.37%, it is projected that the population numbers will increase as follows:

Year	Population
2011	68 659
2012	70 513
2013	72 417
2014	74 372
2015	76 380
2016	78 442
2017	80 560

Source: Western Cape Department of Social Development, 2014

Given the fact that the population grew by 2.77% over the 10 years up to 2011, the 1.37% projected increase should be considered the "best case scenario" when developing strategies for the long term financial plan.

The population growth compared to other major municipalities (for purposes of this document will be known as the "Benchmark Group" which comprises of Swartland - , George -, Mossel Bay -, and Overstrand Municipalities) in the Western Cape is as follows:



Based on relative population ranking in South Africa, the municipalities included in the Benchmark Group, all municipalities ranked higher in population statistics as follows:

	2011	**2001**	**Change**
Swartland	98	129	31
George	48	63	15
Mosselbay	128	131	3
Overstrand	134	156	22
Knysna	143	163	20

Migration constitutes a major challenge for the Knysna (and the rest of the Benchmark Group) as there is a net inflow of people to these areas. Although in- and out-migration cannot be stopped, it must still be managed with great care by the Municipality and be taken into account when compiling a long term financial plan.

The growth rate in Knysna between 2001 and 2011 were 2.77%, which equates to the 21st fastest growing municipality in the country, climbing from 38th in 2001 although the growth rate dropped from 3.54%. This growth is also one of the highest in the Western Cape.

	Growth between 2001 and 2011	**Rank**	**Growth between 1996 and 2001**	**Rank**
Swartland	4.56%	5	1.99%	85
George	2.59%	26	4.36%	20
Mosselbay	2.24%	36	3.58%	37
Overstrand	3.80%	7	8.10%	4
Knysna	2.77%	21	3.54%	38

Knysna's economy is ranked the 8th non-metro municipality according to growth and size in the Province, with Stellenbosch, Mossel Bay and Drakenstein claiming the top three positions respectively. Its contribution to GDPR is R2,47b and its percentage contribution to real GDPR growth and size is 4.8%. It is therefore obvious that the population growth, and through that the demand on services, exceeds the economic growth.

Top ten GDPR contributors in the Western Cape - 2014

Sector	%
Stellenbosch	17.1
Mossel Bay	13.0
Drakenstein	8.9
George	8.1
Overstrand	5.7
Saldanha Bay	5.4
Langeberg	5.3
Knysna	4.8
Bitou	4.4
Swartland	3.7

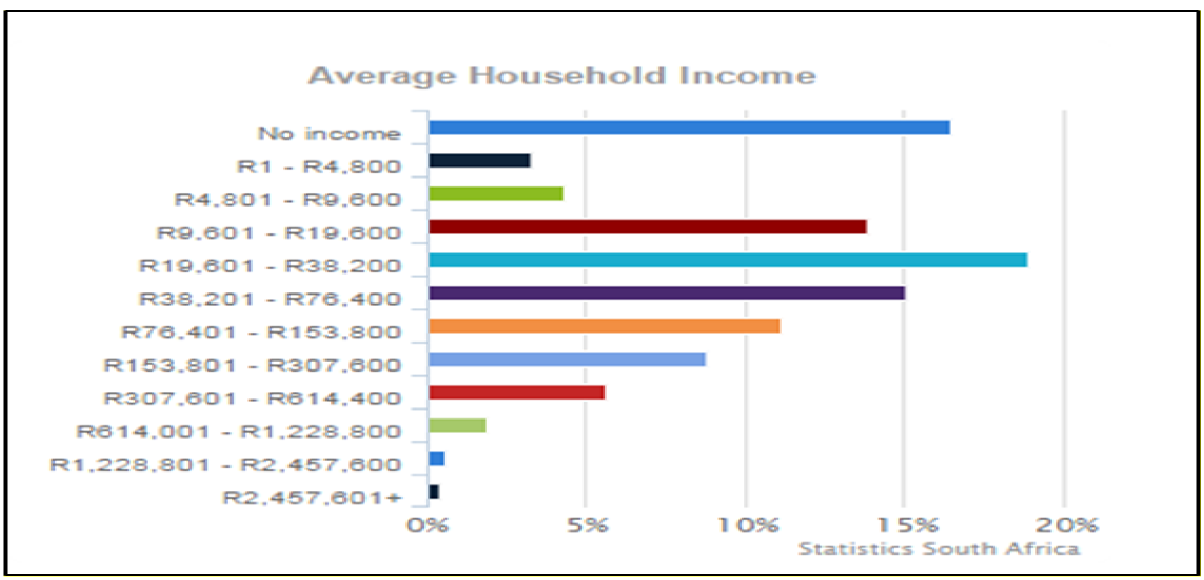
Source: Quantec Research 2014 (MERO 2014)

The largest contributing sectors to GDPR within Knysna Municipality are Finance, Construction, Catering and Accommodation. The smallest contributing sector is Mining and quarrying.

A total of 29 187 people are economically active (employed or unemployed but looking for work), and of these, 7248 are unemployed. Employment statistics are as follows:

Employment Status	Number
Employed	21939
Unemployed	7248
Discouraged Work Seeker	1589
Not Economically Active	15146

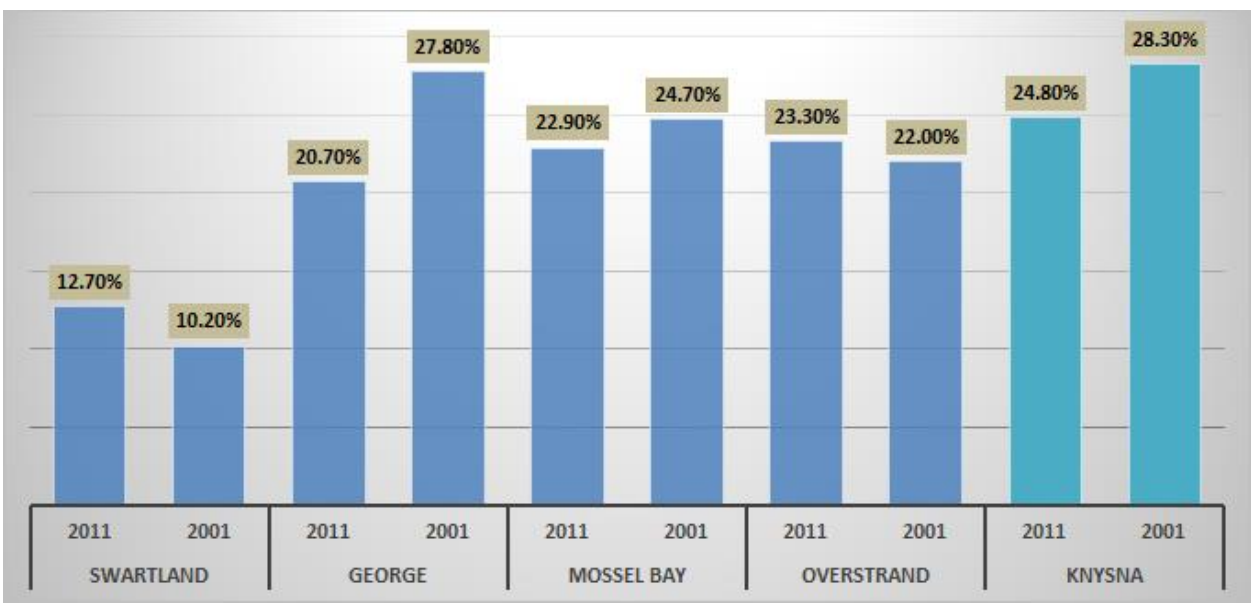
Distribution of income per annum:



Distribution of income per annum (expressed as a percentage):

Income	Percentage
None income	16,4%
R1 - R4,800	3,3%
R4,801 - R9,600	4,3%
R9,601 - R19,600	13,8%
R19,601 - R38,200	18,8%
R38,201 - R76,4000	15%
R76,401 - R153,800	11,1%
R153,801 - R307,600	8,8%
R307,601 - R614,400	5,6%
R614,001 - R1,228,800	1,9%
R1,228,801 - R2,457,600	0,6%
R2,457,601+	0,4%

The unemployment rate, although still a concerning factor, does not compare favorably to the Benchmark Group.



3.2 Infrastructure backlogs

There are 21 893 households in the municipal area. Of these households, 67,3% have access to piped water inside their dwelling, and 16.9% have access to water in their yard. Only 0.5% of households do not have access to piped water with the remaining households sharing communal taps. 88,8% of households have access to electricity.

Knysna Municipality is ranked the 2nd best municipality for the delivery of weekly refuse removal services in the country and the 48th municipality in the country based on households having access to electricity and 30th based on access to piped water. However based on sewerage (Flush toilet connected to sewerage) statistics there are still room for improvement, as the municipality is ranked only 66th respectively in this category.

	2011		2001		
	%	Ranking in RSA	%	Ranking in RSA	Trend
Flush Toilet Connected to Sewerage	66.80%	66	54.90%	60	Declined
Weekly Refuse Removal	93.00%	2	90.80%	2	The same
Piped Water inside Dwelling	67.30%	30	51.30%	26	Declined
Electricity for lighting	88.80%	48	80.40%	39	Declined

Housing remains a challenge, not only for Knysna, but for the entire country.

From the above it is clear that the municipality, at current population levels, requires funding for an additional 9000 dwellings after the projected additions until 2018/2019 have been taken into account. However, this does not include the expected population growth which in turn will increase this requirement significantly. The municipality is already under pressure to provide bulk services. Housing additions of this magnitude will increase this pressure on infrastructure development. Due to the high cost of infrastructure development, as well as the related maintenance cost, severe demands will be placed on the financial resources of the municipality.

4. SECTION 4: FINANCIAL OVERVIEW: REVENUE MANAGEMENT

Knysna derives approximately 97% of revenue (excluding conditional capital and operating grants) from the following sources:

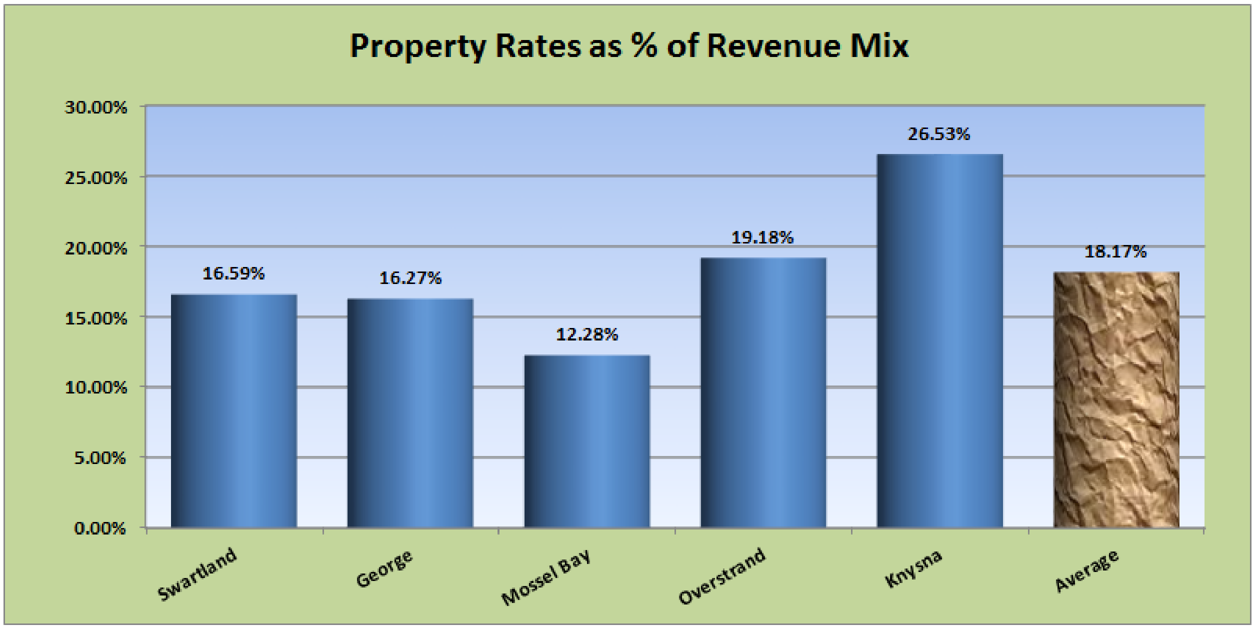
1) Property Rates
2) Service Charges
3) Unconditional Grant Funding (Equitable Share)
4) Fines

Main revenue streams are analysed in more detail below.

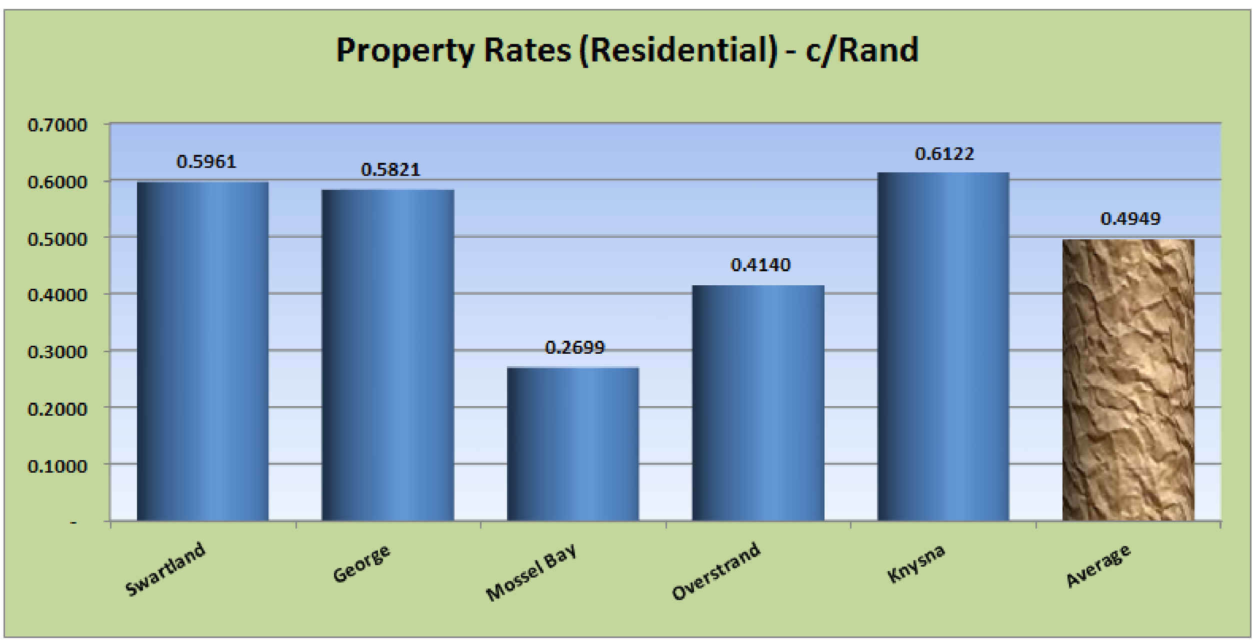
4.1 Property Rates

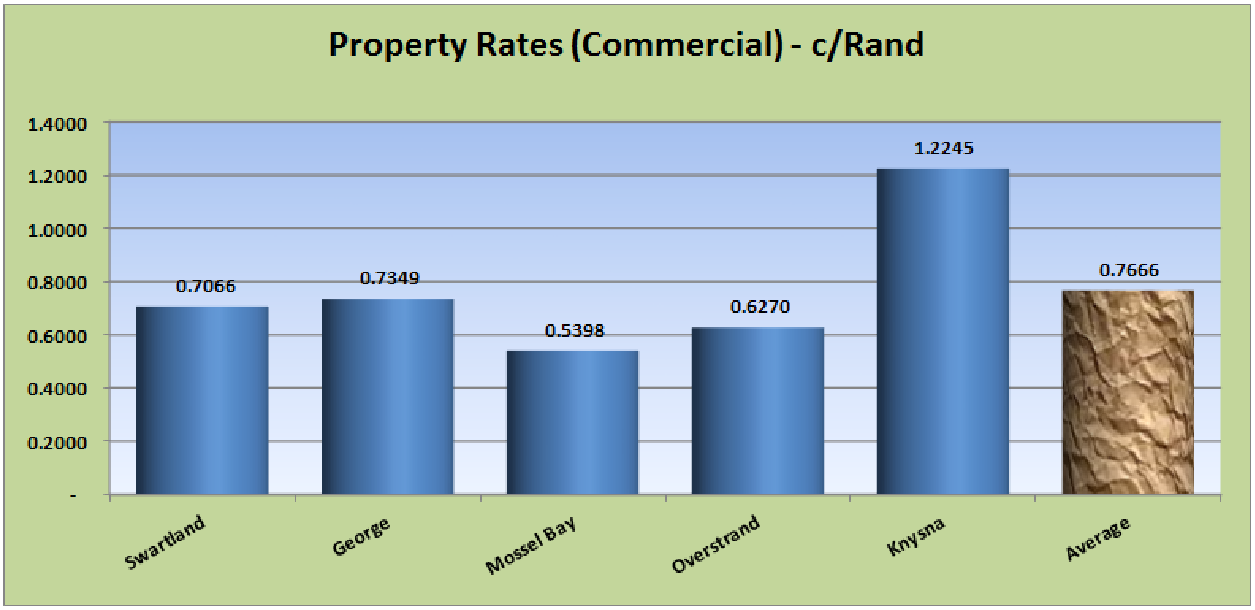
During 2014/2015, property rates accounted for 26,5% of the revenue mix of Knysna Municipality. This percentage is set to decrease to 26,3% by 2017/2018. Translated into Rand, the revenue derived from property rates will increase from R 158.860 million in 2014/2015 to R 205.364 million in 2017/2018. This increase amounts to an average annual increase of 10% per annum over the 3 year period as indicated below:

Comparing property rates to the Benchmark Group, Knysna Municipality is the most dependent on property rates to fund the total budget:



When the Benchmark Group is compared based on the tariffs charged (2014/2015) for the 2 main categories of properties (Residential, Commercial and Agricultural), the results are as follows:



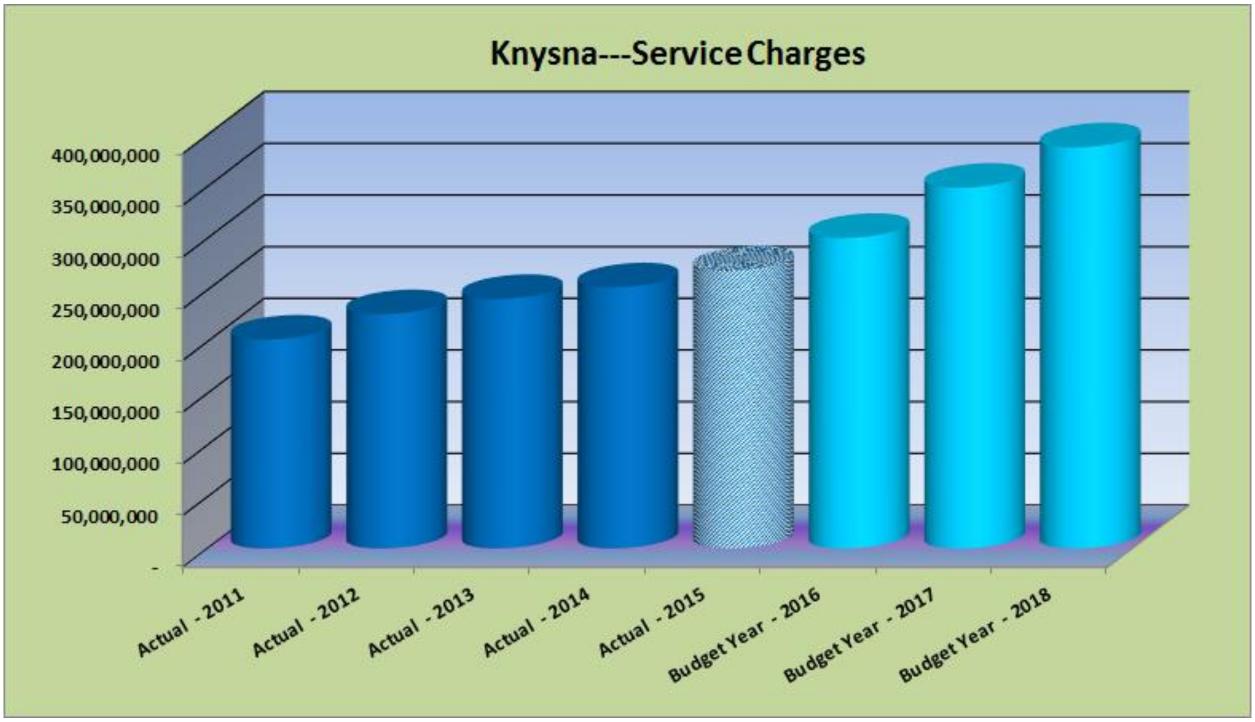


Residential and Business rates are the highest in the Benchmark Group. Any room for further increases in these categories is very limited.

The plan does not take into account any proposed adjustments in the Property Rates Act.

4.2 Service Charges

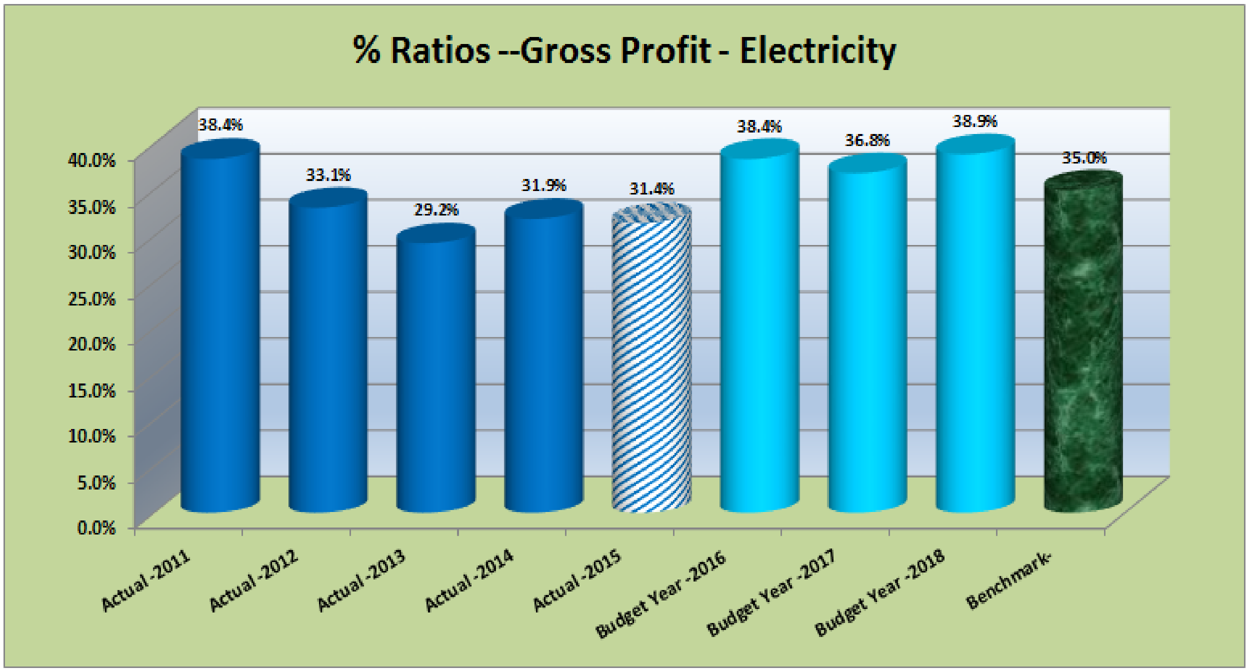
Service charges are made up of Electricity-, Water-, Sewerage- and Refuse Revenue and accounted for 44,8% of the total revenue mix in 2014/2015. It is projected that Service charges will increase at an average annual rate of 11%.



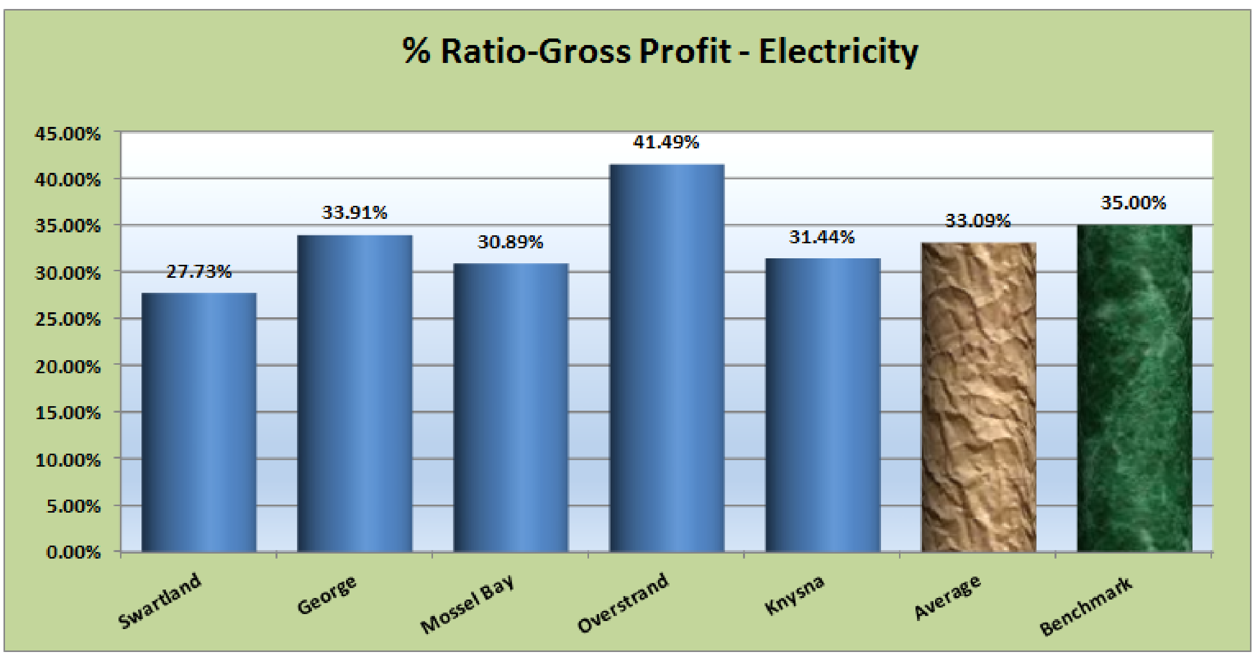
4.2.1 Service Charges – Electricity

Electricity Service charges contribute approximately 31% of the revenue mix of Knysna Municipality.

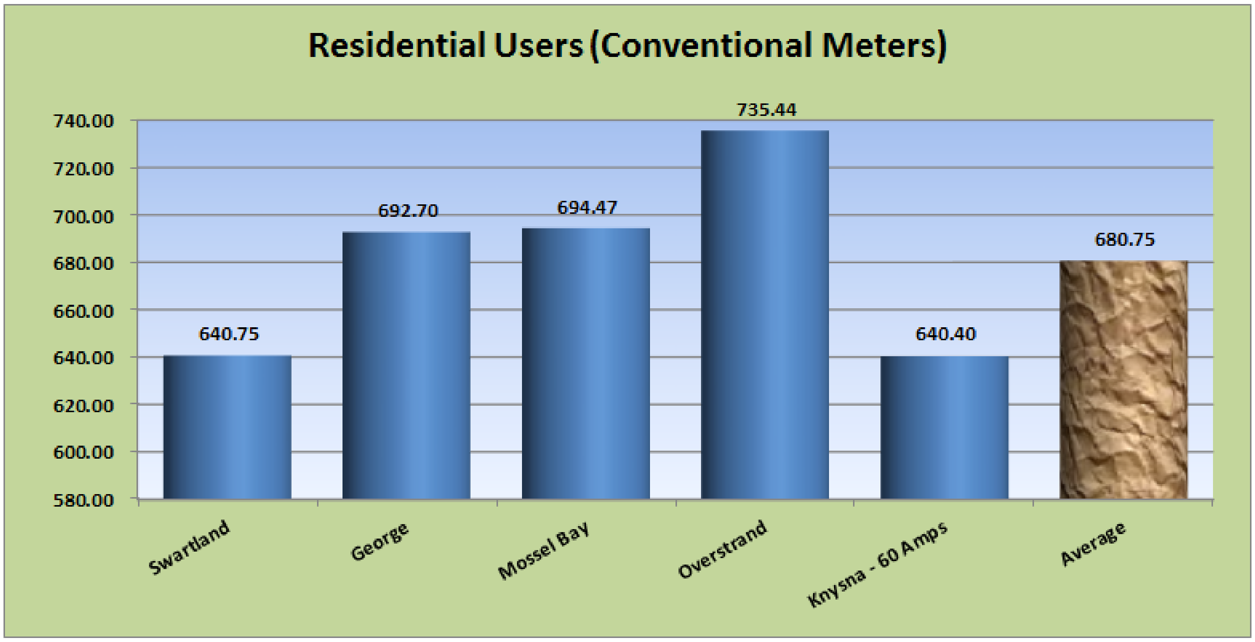
Electricity service charges have historically been a "profit making" service for most municipalities. Surpluses generated in distributing electricity is utilised to cross-subsidise other functions of the municipality where services are unable to be cost reflective. For this reason, it is very important to ensure the margins derived on Electricity services are maintained at a certain level. However, due to sharp increases in bulk service charges (Refer to Section 5), combined with the inability of the municipality to transfer all cost increases to the consumer, electricity margins came under pressure as illustrated below. The electricity service charges budget for the outer years is based on an average tariff increase of 13.12% over the next 3 years while a somewhat optimistic average increase of 9.13% is budgeted for the bulk purchases of electricity.



Compared to the Benchmark Group, Knysna Municipality is performing close to the average based on Gross Profit % (2014/2015).



Based on the fact that the average percentage increase in bulk purchases is well below that of the average increase in revenue (see section 5.4 below) and considering the strict criteria set for tariff increases from NERSA, the municipality should investigate the matter to identify the areas that needs to be addressed (i.e. tariff structure for both consumers and bulk purchases).



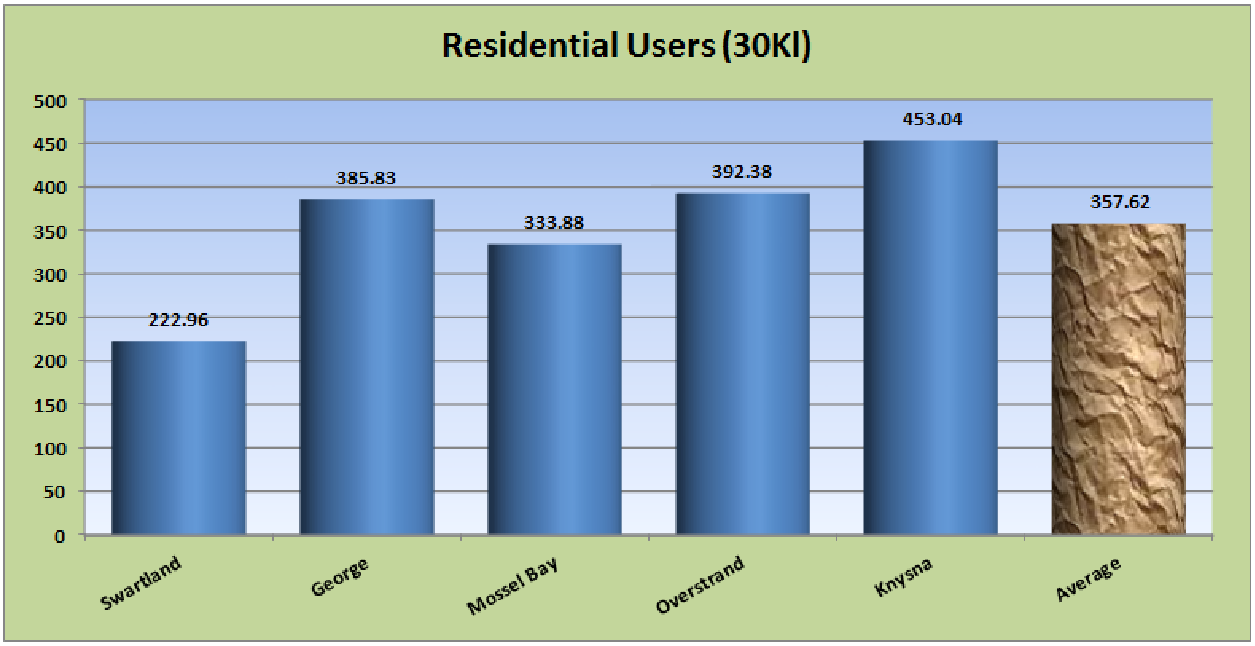
Availability charges, stated R 217.51 per month for 2014/2015 is significantly higher than the other municipalities in the benchmark group.

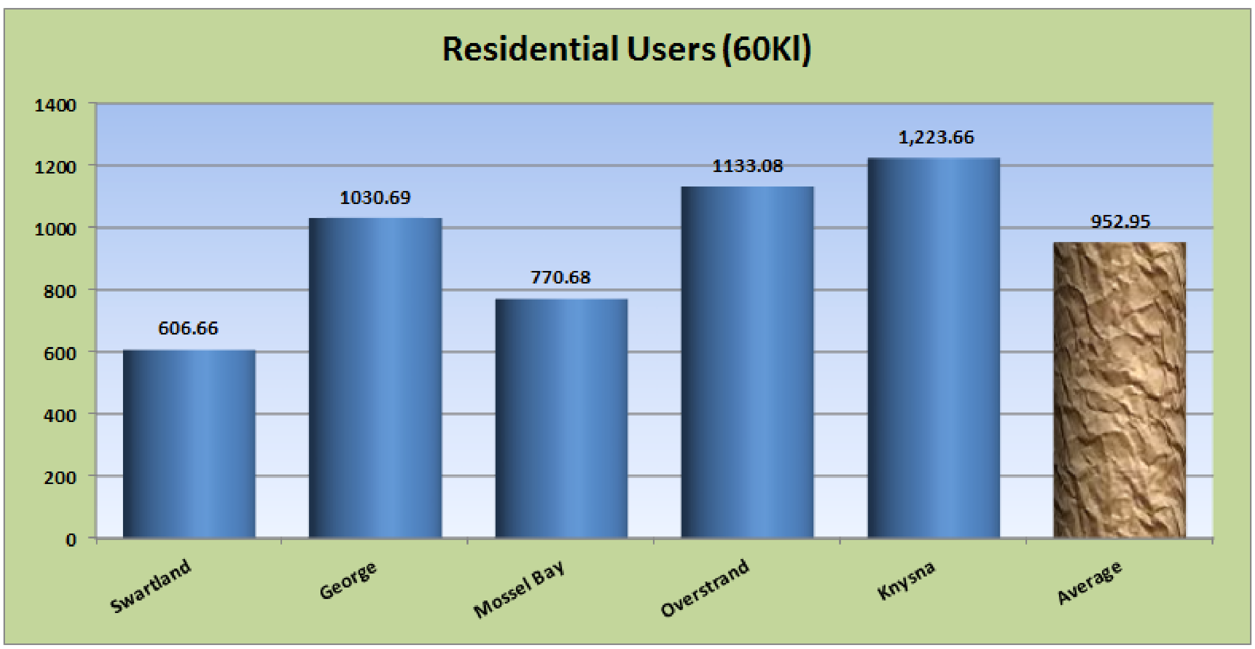
4.2.2 Service Charges – Water

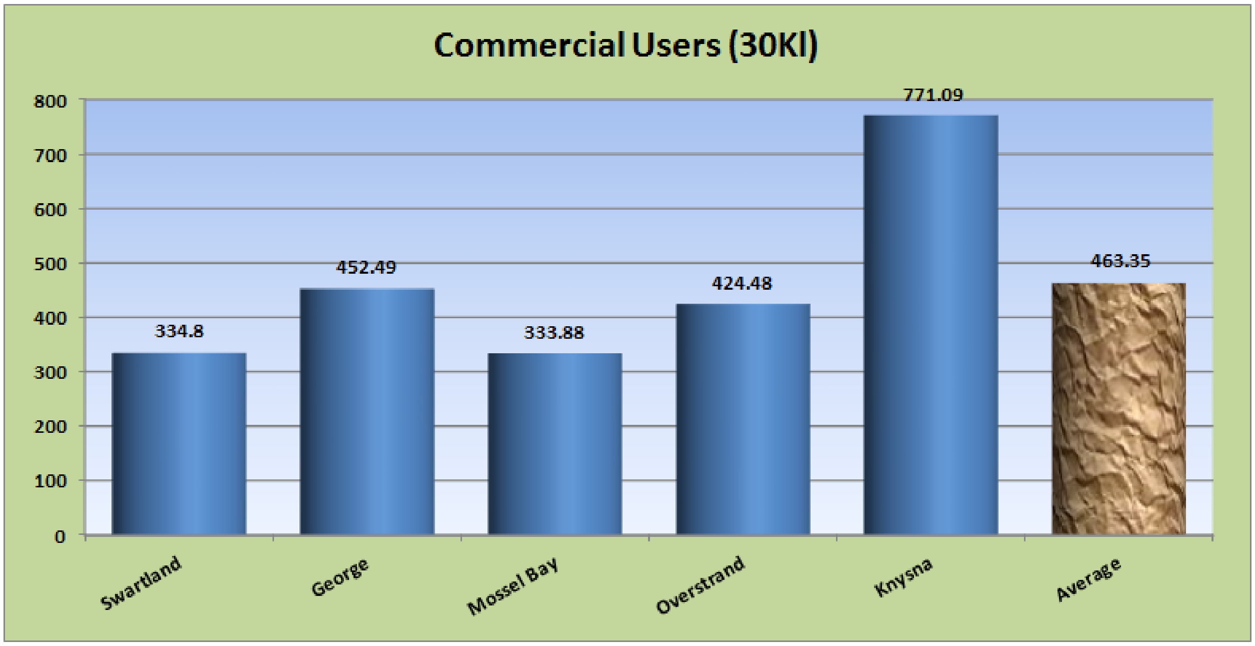
Water Service Charges constitutes approximately 8% of the revenue mix of the Knysna Municipality.

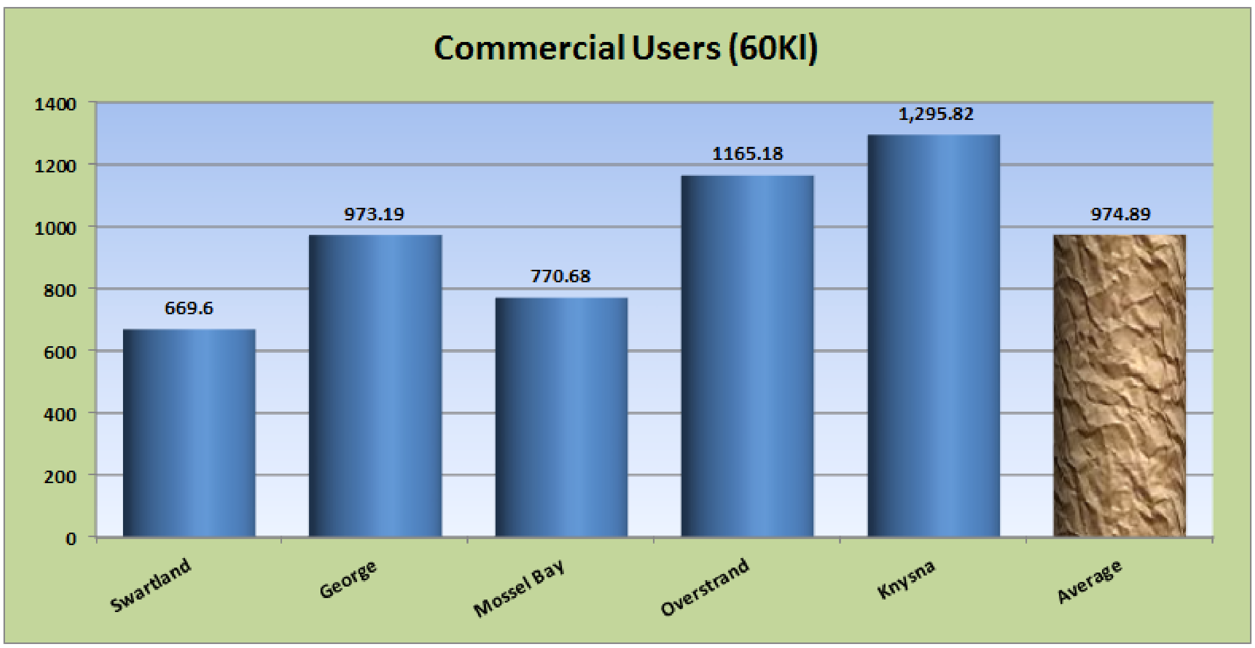
Standard Classification Description	2011/12	2012/13	2013/14	2014/15	2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Actual	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Revenue - Water	50,357	60,212	65,496	76,963	76,963	88,341	94,633
Expenditure - Water	40,109	41,917	40,243	47,476	51,891	57,315	60,881
Net Surplus/(Deficit)	10,249	18,295	25,253	29,487	25,072	31,026	33,752
Net Surplus/(Deficit) %	20.35%	30.38%	38.56%	38.31%	32.58%	35.12%	35.67%

To compare the current tariff structure to that of the Benchmark Group, consumption levels, using 30kl and 60kl, will be used as basis (2014/2015). The results are as follows:


Residential Users (30Kl)
500
450
400
350
300
250
200
150
100
50
0
222.96
385.83
333.88
392.38
453.04
357.62
Swartland
George
Mossel Bay
Overstrand
Knysna
Average

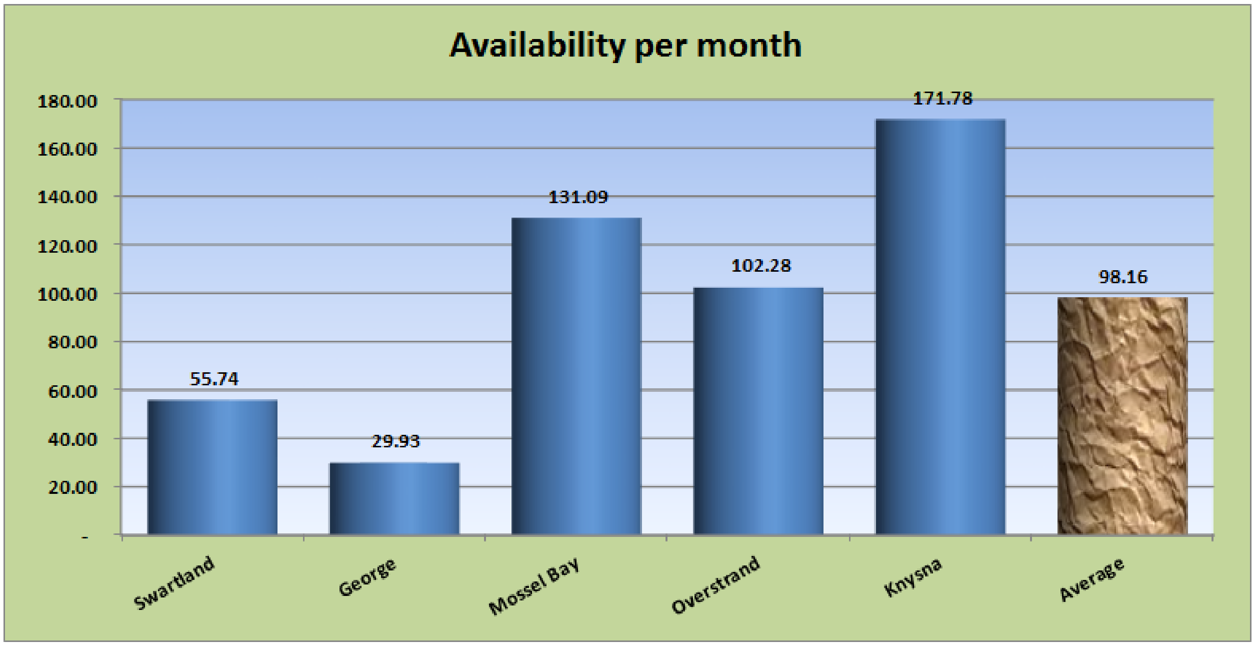

Residential Users (60Kl)
1400
1200
1000
800
600
400
200
0
606.66
1030.69
770.68
1133.08
1,223.66
952.95
Swartland
George
Mossel Bay
Overstrand
Knysna
Average





In all scenarios above, Knysna Municipality is well above the average for the Benchmark Group.

To further compound the issue, the availability charges levied by Knysna Municipality is significantly higher than the other municipalities in the Benchmark Group.



4.2.3 Service Charges – Sanitation

Sanitation Service Charges contributes approximately 5% to the revenue mix of the Knysna Municipality.

The service is currently operating very close to it being an economical service i.e. break-even.

Standard Classification Description	2011/12	2012/13	2013/14	2014/15	2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Actual	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Revenue - Sanitation	28,846	27,601	17,516	21,229	28,850	26,755	28,697
Expenditure - Sanitation	21,495	17,653	19,685	23,520	25,044	27,024	28,979
Net Surplus/(Deficit)	7,351	9,948	(2,169)	(2,291)	3,806	(269)	(282)
Net Surplus/(Deficit) %	25.48%	36.04%	-12.38%	-10.79%	13.19%	-1.01%	-0.98%

Service charges are set to increase by an annual average rate of 7,21% over the period 2013/2014 to 2017/2018. This increase is considered to be both reasonable and adequate. It was estimated in 2011 that only 66,8% of flush toilets were connected to a sewerage network.

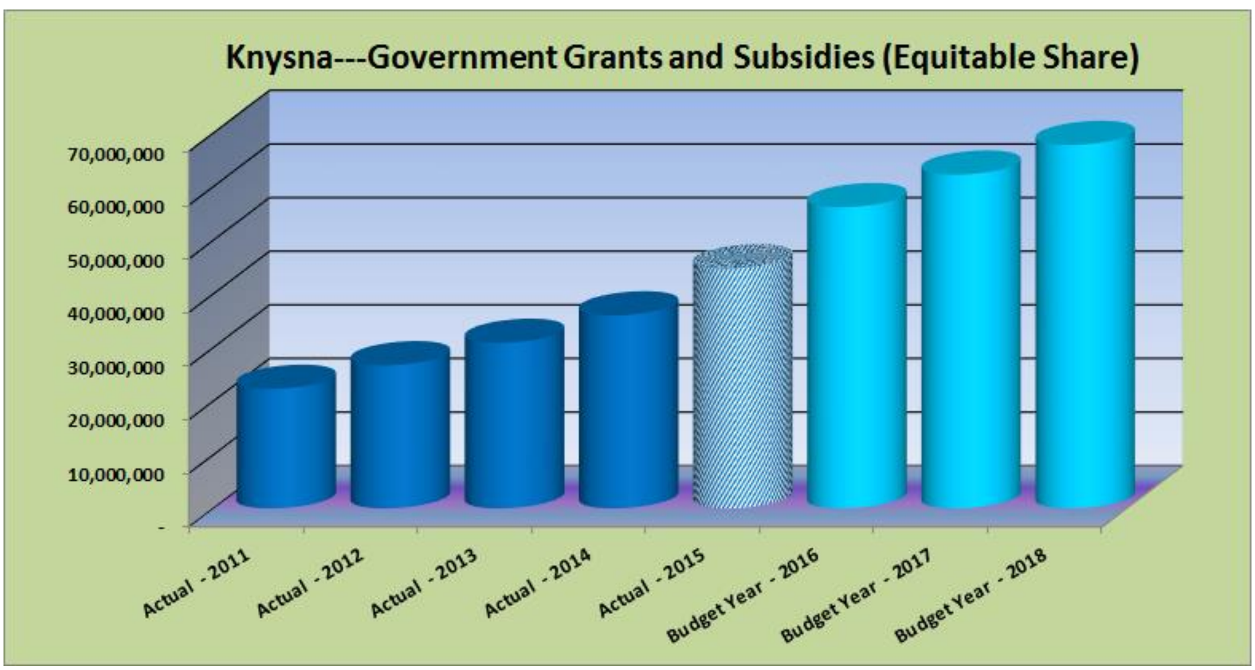
4.2.4 Service Charges – Refuse

The refuse service is the smallest contributor to the revenue mix, contributing on average only 3.75%. The service is projected to remain profitable for the foreseeable future.

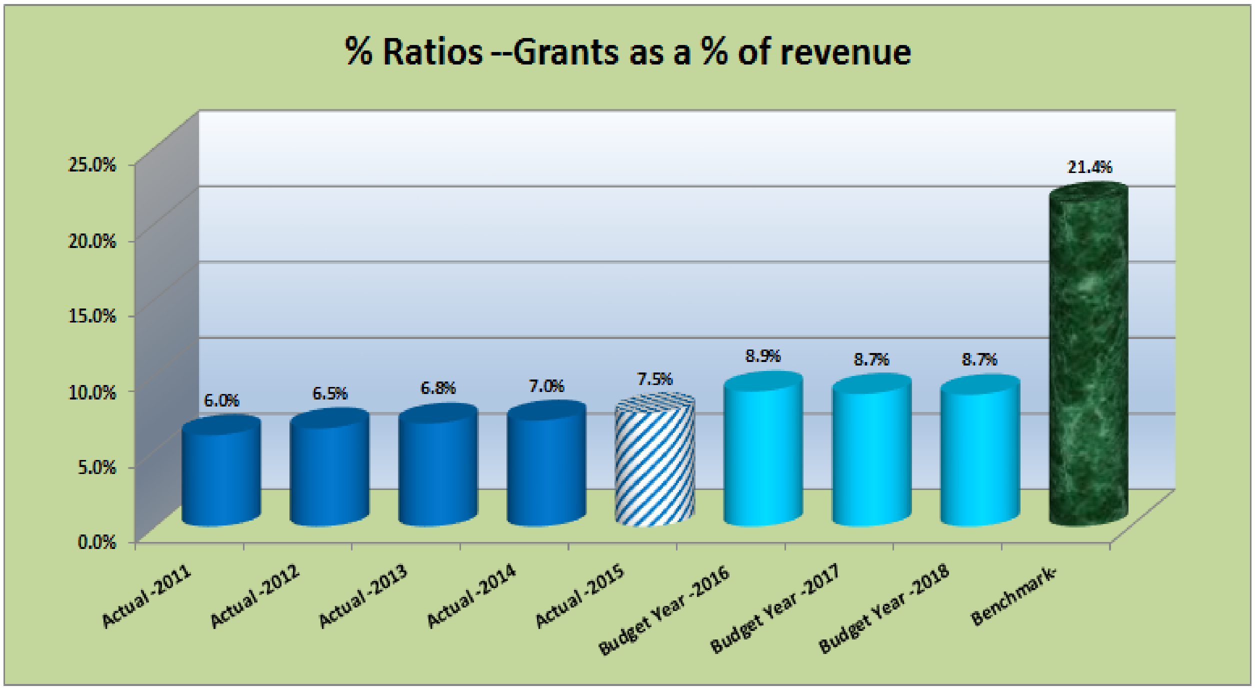
Standard Classification Description	2011/12	2012/13	2013/14	2014/15	2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Actual	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Revenue - Refuse	20,513	21,079	22,801	25,965	29,847	33,325	36,533
Expenditure - Refuse	21,896	20,716	23,340	28,947	28,931	27,912	29,244
Net Surplus/(Deficit)	(1,383)	362	(539)	(2,982)	916	5,413	7,289
Net Surplus/(Deficit) %	-6.74%	1.72%	-2.36%	-11.49%	3.07%	16.24%	19.95%

4.3 Unconditional Grant Funding (Equitable Share)

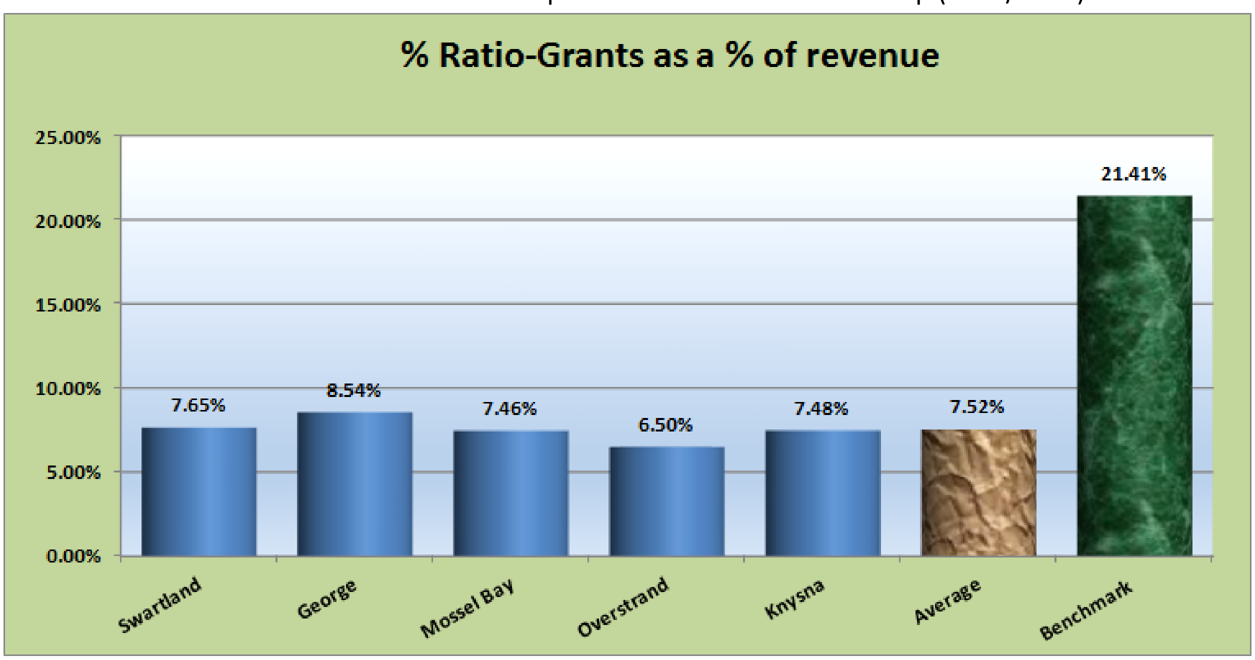
The Equitable share allocation is set to increase at an average rate of 22,1% over the next three years, before it is expected to flatten off. This significant growth is aligned to the significant growth in the population experienced over the recent years.



With a strong revenue base, the dependence on grant funding to balance the budget has always been very low when compared to the benchmark set in the Western Cape:

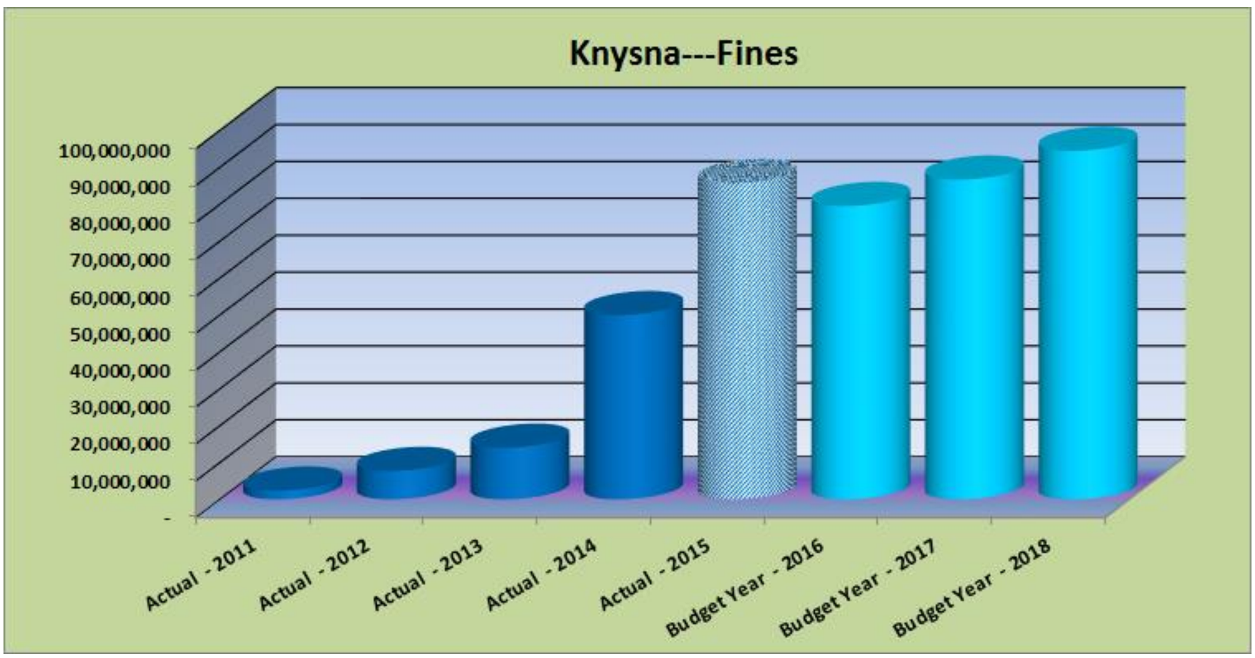


This trend is also in line with the other municipalities in the Benchmark Group (2014/2015)



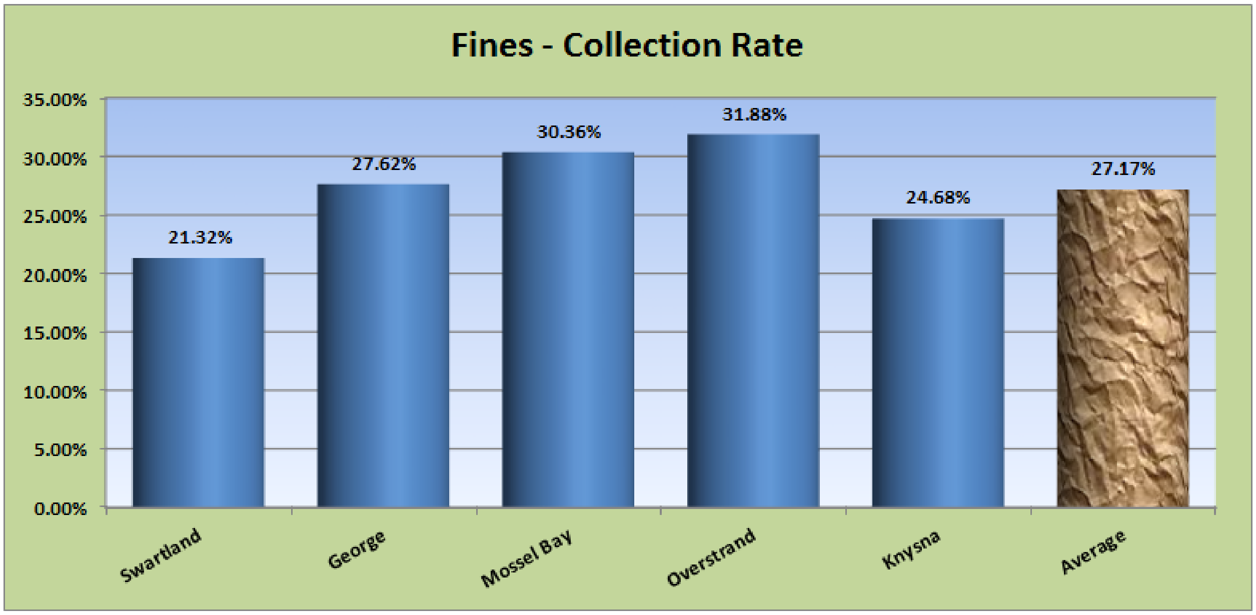
4.4 Fines

Fines revenue went through relatively unnoticed on most Statements of Financial Performance in South Africa up to 30 June 2013. During 2010 to 2012, fines revenue accounted for an insignificant portion of the total revenue mix of Knysna Municipality. This low percentage could mainly be attributed to the accounting treatment of fines before the introduction of the revised iGRAP on 1 July 2013. Up to this date, fines revenue was predominantly accounted for on a cash basis. With the revisions of iGRAP 1, fines revenue is currently accounted for on the accrual basis, implying that fine revenue should be recognised irrespective whether it is collected or not (also note that the municipality now provides for the uncollectable portion of fines under debt impairment). On average, fines now contribute approximately 8,2% for 2014 and 12,3% for 2015 towards the revenue mix of Knysna Municipality. Although it is recognised that fines revenue does not necessarily translate into cash, the graph below, and specifically the significant jump in revenue between 2012/2013 and 2013/2014, should remind all Councils of the potential cash that can be generated when improving collection procedures specifically targeted at fines.



The collection rate of fines during 2014/2015 amounted to 24.68%. Ignoring any uncollected fines (that could potentially be collected) issued on or prior to 30 June 2013 and only focusing on uncollected fines projected for the period 2013/2014 to 2017/2018, the municipality will identify potentially uncollected fines of R780 000 for every 1% increase in the collection rate.

In the Benchmark Group, Knysna's fines collection rate compares as follows:



Comparing the collection rates of the municipalities above, it is quite evident that there is the potential to increase collection rates at Knysna Municipality.

Approximately R 3.9 million in fines can be collected for every 1% improvement in the collection rate over a 5 year period.

5. SECTION 5: FINANCIAL OVERVIEW: EXPENDITURE MANAGEMENT

"Building on cost containment guidelines approved by Cabinet in October 2013, government at all levels will need to identify opportunities to increase efficiency and reduce waste. At a national level, the 2015 budget will pay particular attention to reducing line items that are not critical to service delivery to reinforce cost containment. Municipalities are still urged to implement the cost containment measures…"
Circular 74 - Municipal Budget Circular for the 2015/16 MTREF

In the municipal environment, the following line items are considered to be the main cost drivers, as it represents more than 90% of the total operating expenditure of the Knysna Municipality:

- Employee Related Costs
- Debt Impairment
- Depreciation and Asset Impairment
- Bulk Purchases
- Other Expenditure (Including Repairs and Maintenance)

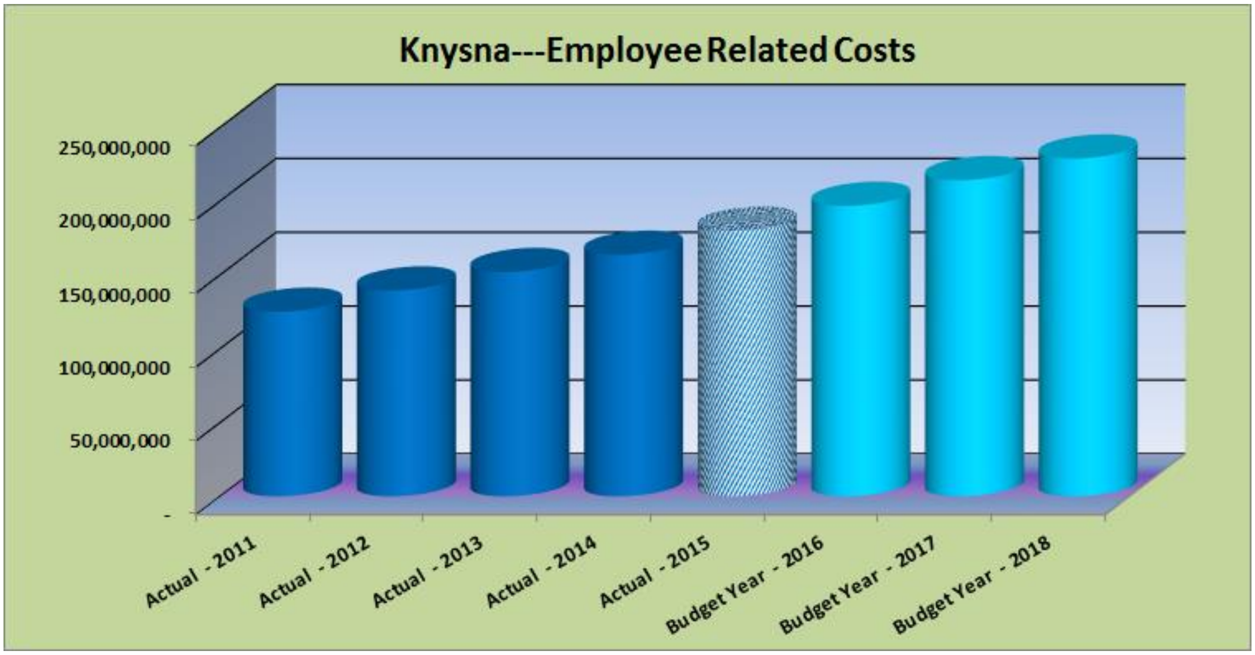
Total operating expenditure (excluding expenditure directly related to conditional grant funding) amounted to R 559,91 million in 2014/2015. This figure is expected to increase to R 738.04 million in 2017/2018.

These major line items are analysed in detail below.

5.1 Employee Related Costs

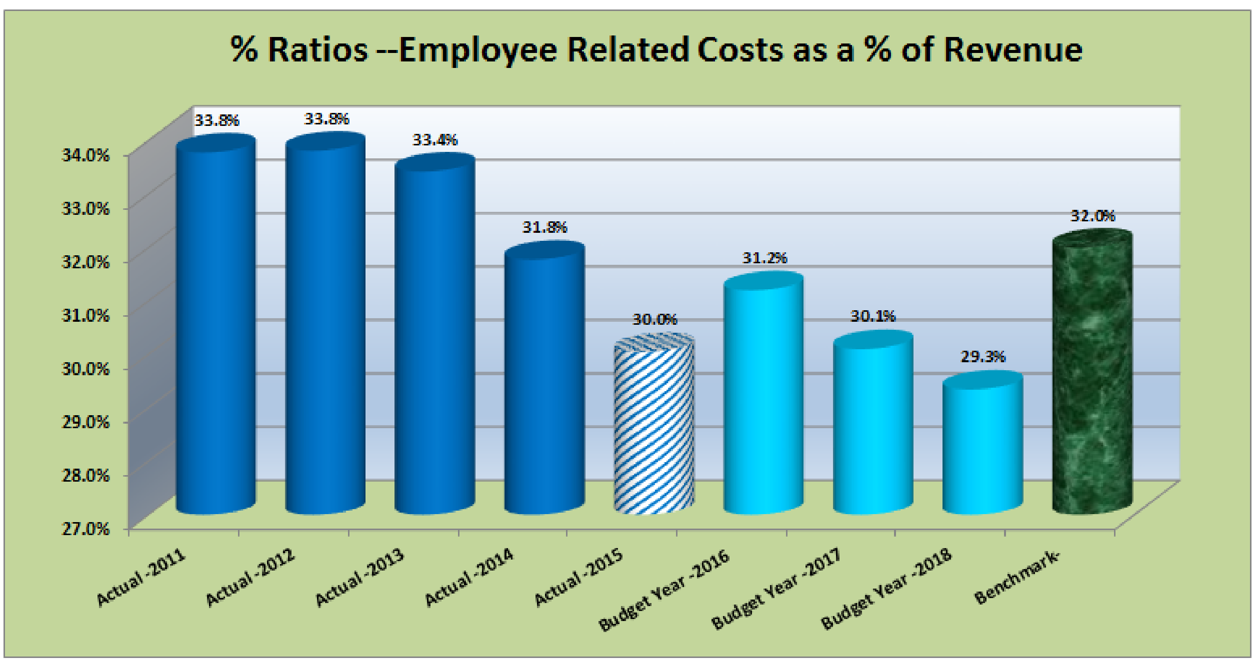
Employee related costs make up approximately a third of the total operating expenditure of the municipality. Thus, it is of the utmost importance to monitor this line item on a regular basis to ensure that it is within set limits. Excessive increases, without the corresponding increase in revenue, could negatively impact on the long term sustainability of the municipality.

The wage bill of Knysna Municipality is set to increase from R 179,89 million in 2014/2015 to R228,78 million in 2017/2018. This increase, which factors in proposed annual increases per Circular 74 of the National Treasury, amounts to an average annual increase of 8,35% over the 3 year period. The increase is illustrated below:



To evaluate the projected employee related cost figure, it is compared to certain benchmarks established in the Western Cape in recent years. Employee related cost is benchmarked against both revenue and expenditure to evaluate the appropriateness of the projected figures.

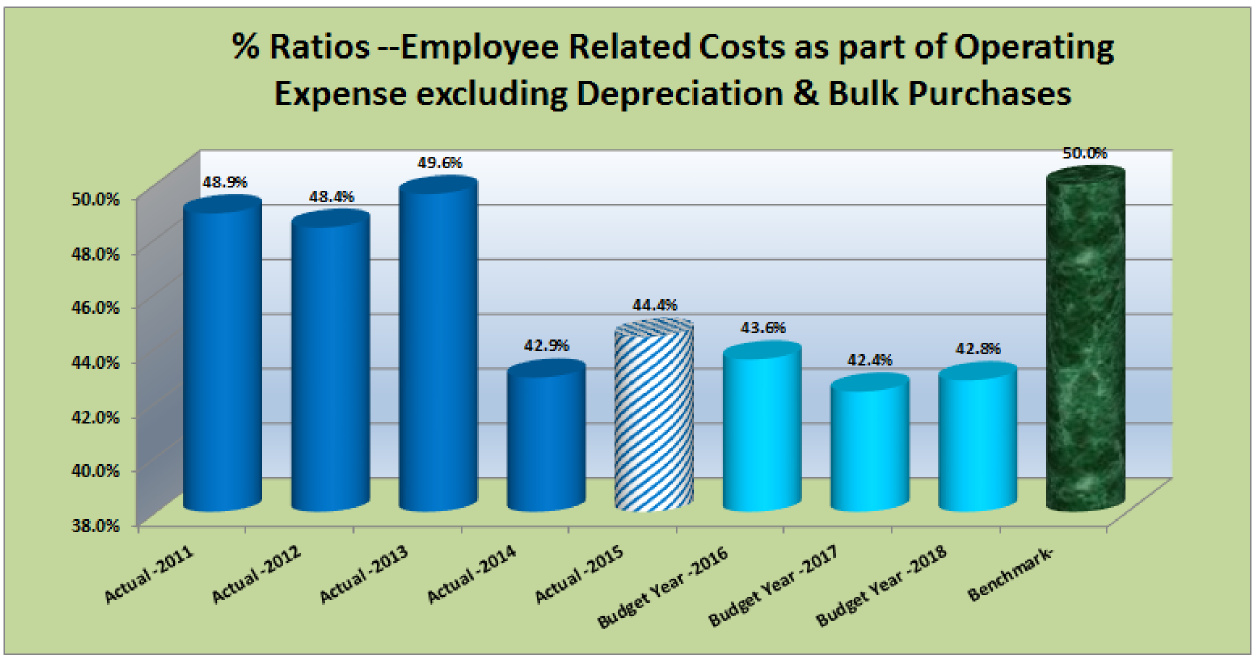
Firstly, Employee Related Costs is benchmarked against revenue. As indicated below, the employee related costs will be on par with the benchmark of 32% during 2013/2014 and 2015/2016, before it settles below the norm during the period 2016/2017 to 2017/2018.



However, it should be mindful of the fact that the Western Cape Provincial Treasury's benchmark model was established before the inception of iGRAP 1 (Refer to Section 4.4 relating to fines). Fines revenue can have a significant effect on the ratio above and it is considered prudent to reduce fine revenue in line with actual receipts before reaching final conclusions.

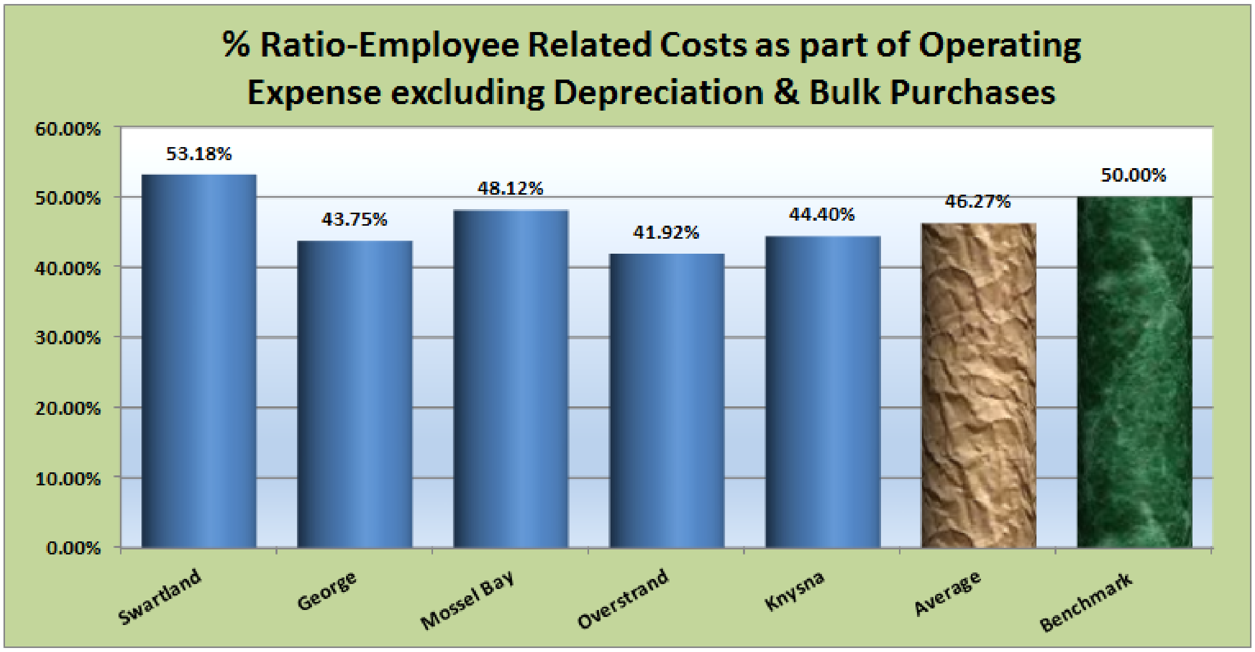
Secondly, Employee Related Costs is benchmarked against an operating expense indicator. When benchmarks were set in the Western Cape, the team that was tasked to determine the benchmarks, specifically focussed on significant items that might distort ratio's when comparing one municipality with another. For this reason, a benchmark was established that excludes material items such as Depreciation and Bulk Purhases. These items can fluctuate significantly between different municipalities due to different asset valuation techniques or service delivery areas .

Based on this indicator, the municipality is projected to be well within the limits of the norm throughout the projected period from 2014/2015 as indicated below:



However, similar to the scenario with the revenue indicator, these benchmarks were set before the introduction of the revised IGRAP 1 that had a significant effect on fines revenue as well as the related debt impairment expense. To ensure that this material item does not distort the benchmark, the debt impairment relating to fines can be excluded for both the budget and the benchmark from the figures to reflect another scenario. The benchmark amount should be reduced by approximately 8% to provide for the fines impairment adjustments.

The Knysna Municipality also compares favorably with the Benchmark Group, as indicated below:

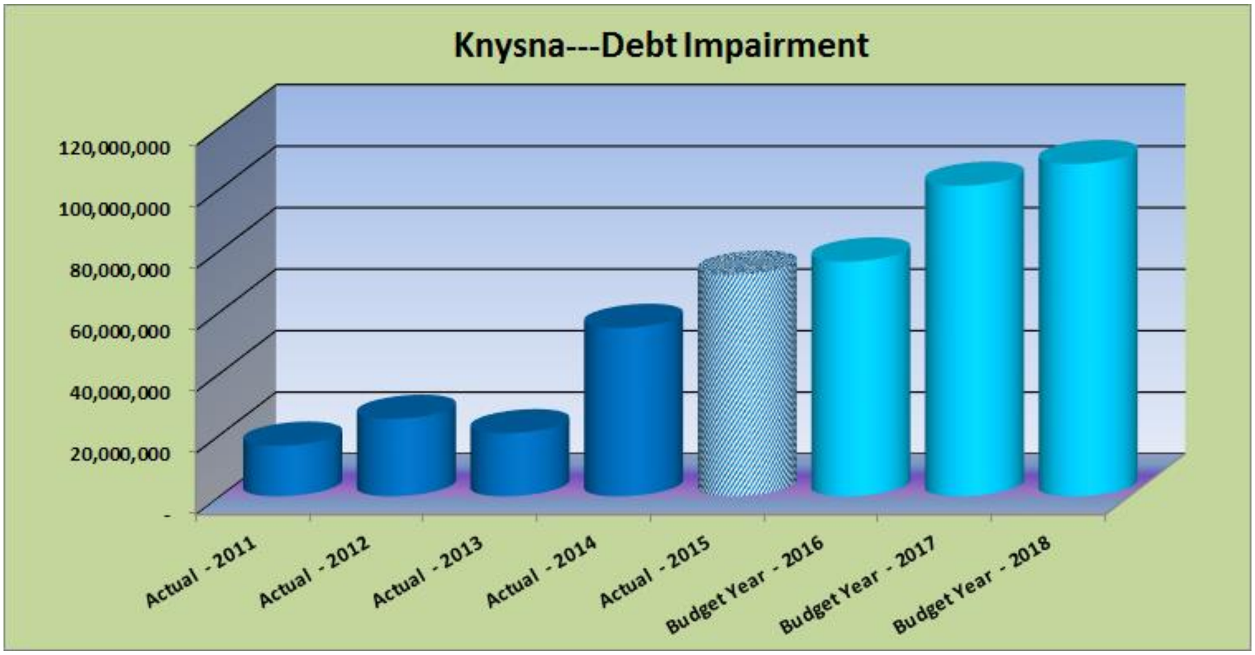


5.2 Debt Impairment

Although considered by many to be a non-cash item and not very important to include in the operating budget, it is very important to accurately budget for debt impairment to reduce the gross receivable balance to the net recoverable amount. It is also very important to factor any potential non- payment of debtors into the tariff structure of the municipality.

The debt impairment figure consist out of 2 significant items, namely the impairment charge relating to consumer debtors (including rates receivables) as well as the impairment charge relating to fines.

The debtors' recovery rate on Consumer Debtors is about 95%, which is acceptable. The sharp increase in debt impairment since 2013/2014 can mainly be attributed to the introduction of debt impairment on traffic fines, which totaled R39,1 million in 2014. The budget for the outer years reflects a further huge increase as a result of a projected increases in traffic fines due to the appointment of a new service provider.



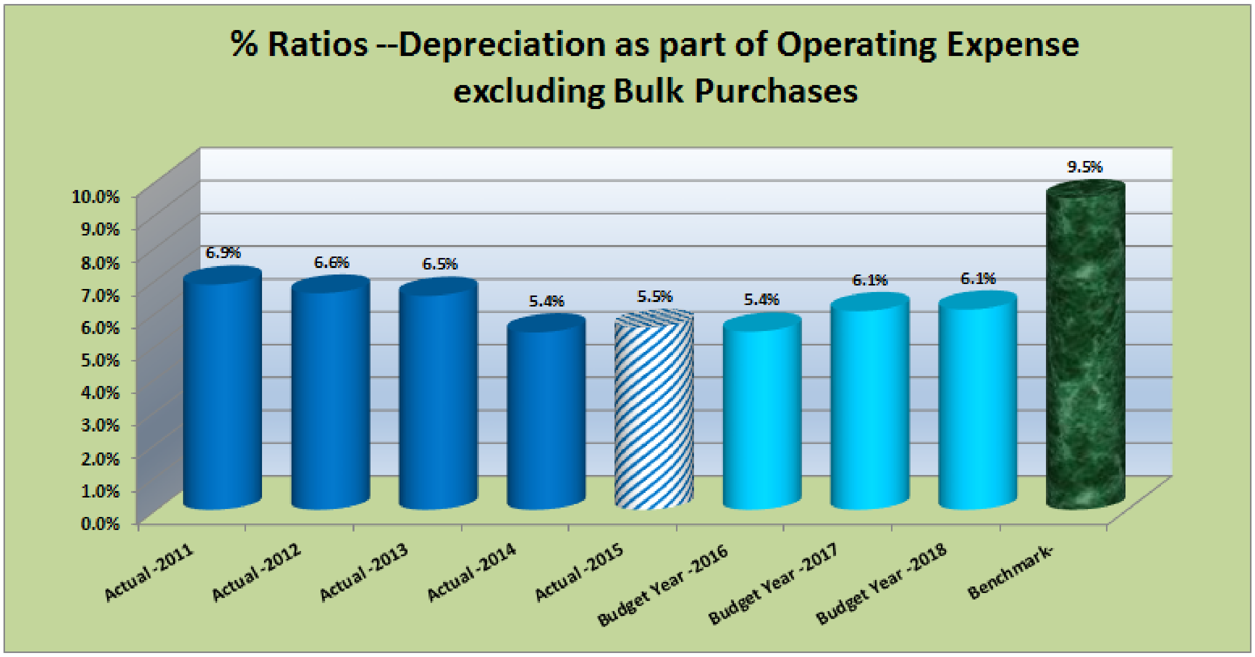
A conservative approach to budgeting for debt impairment with "buffer" of approximately 3% between the projected and actual collection rates should be an advantage to the municipality in future years. By collecting these "additional" revenues, the municipality can manage to beat financial cash forecasts while also providing for any possible economic meltdowns. By applying this conservative approach to debt collections, the municipality will be better geared towards the scenario where the collection rates are negatively impacted due to circumstances beyond their control (i.e. in the event of financial "shocks/set-backs").

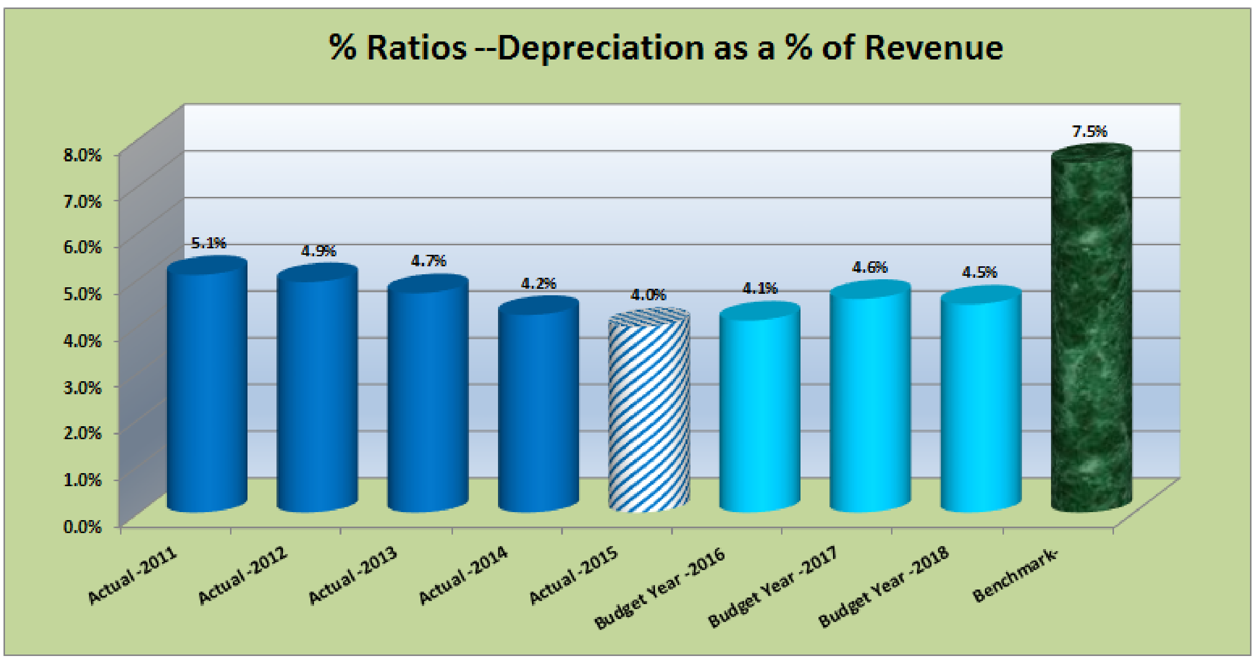
The significant increase in debt impairment relating to fines can be attributed to the changes in iGRAP 1 specifically relating to fines (non-exchange revenue). The municipality is encouraged to improve collection rates relating to fines. This will not only reduce the level of debt impairment charges to be recognized, but also significantly improve the net cash position of the municipality as discussed in section 4.4.

5.3 Depreciation and Asset Impairment

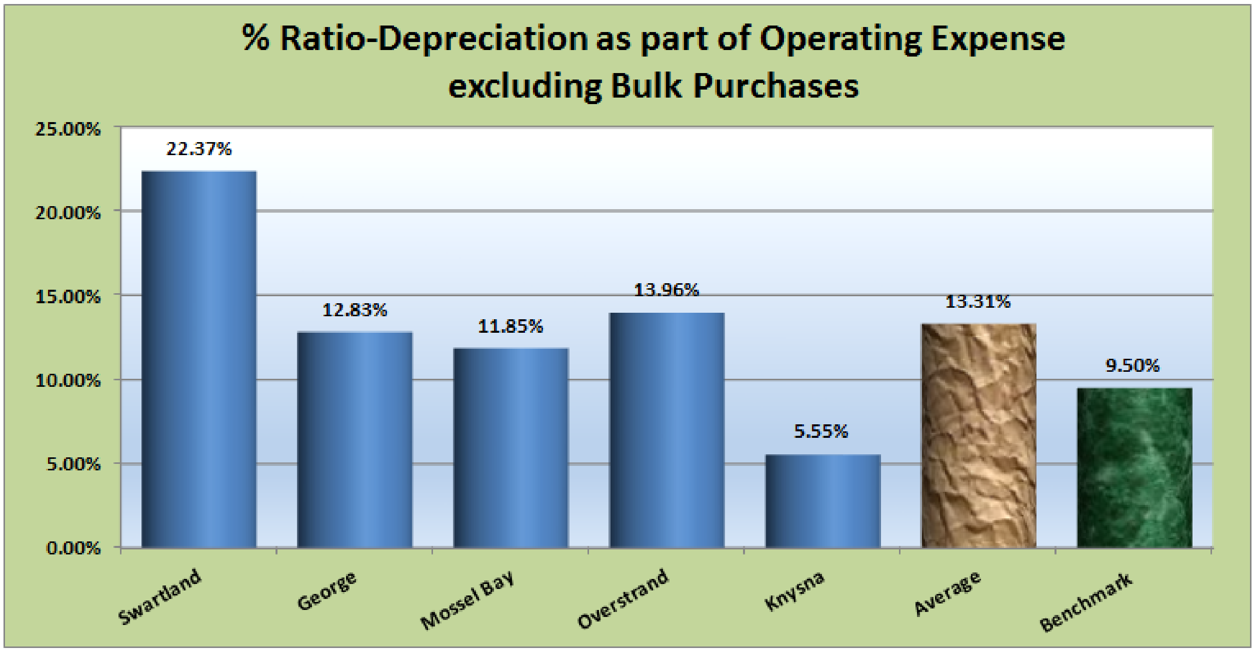
Depreciation is widely considered a proxy for the measurement of the rate of asset consumption. Although depreciation is a non-cash item, the expense should still be factored into the tariffs and rates charged by the municipality to ensure that sufficient resources are available when assets needs to be replaced.

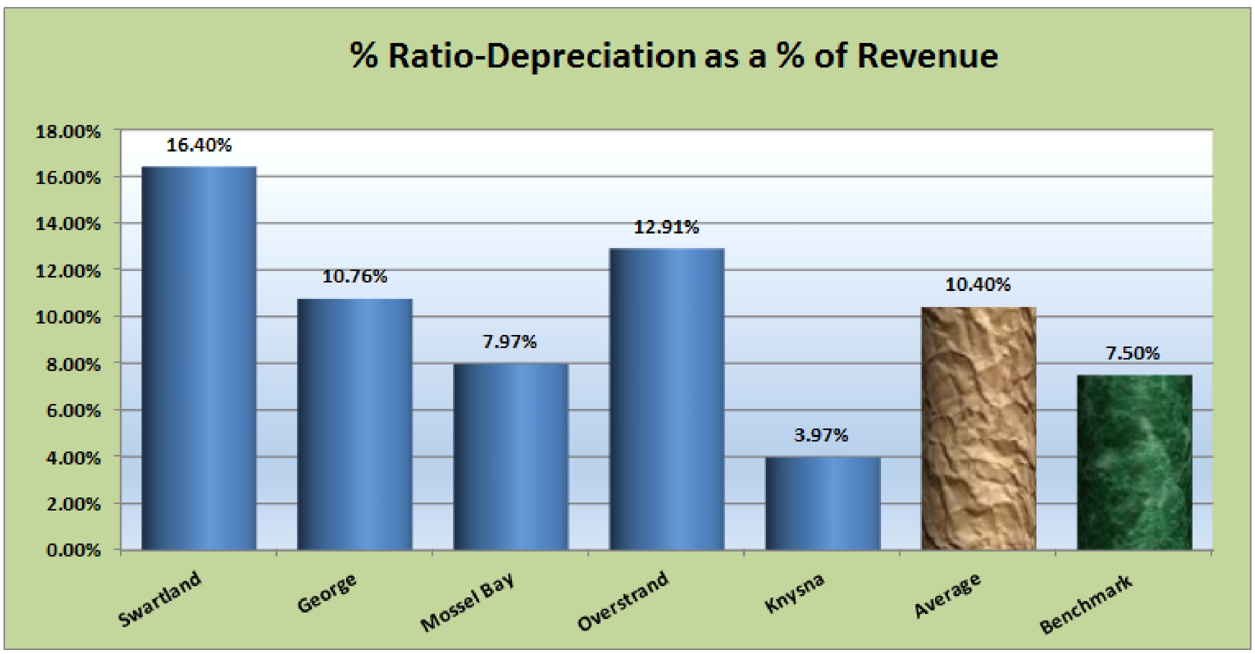
Relative to benchmarks set for depreciation in the Western Cape (revenue and expenditure benchmarks), the municipality's depreciation charge is well below the norm.





When the depreciation charge recognised at Knysna Municipality is compared to the Benchmark Group, the municipality is the best performer based on depreciation charges. This also indicates that the municipality's infrastructure and other assets are significantly in a better condition than other municipalities. (Swartland and Overstrand have got different asset valuation methods and should not be compared to that of Knysna).

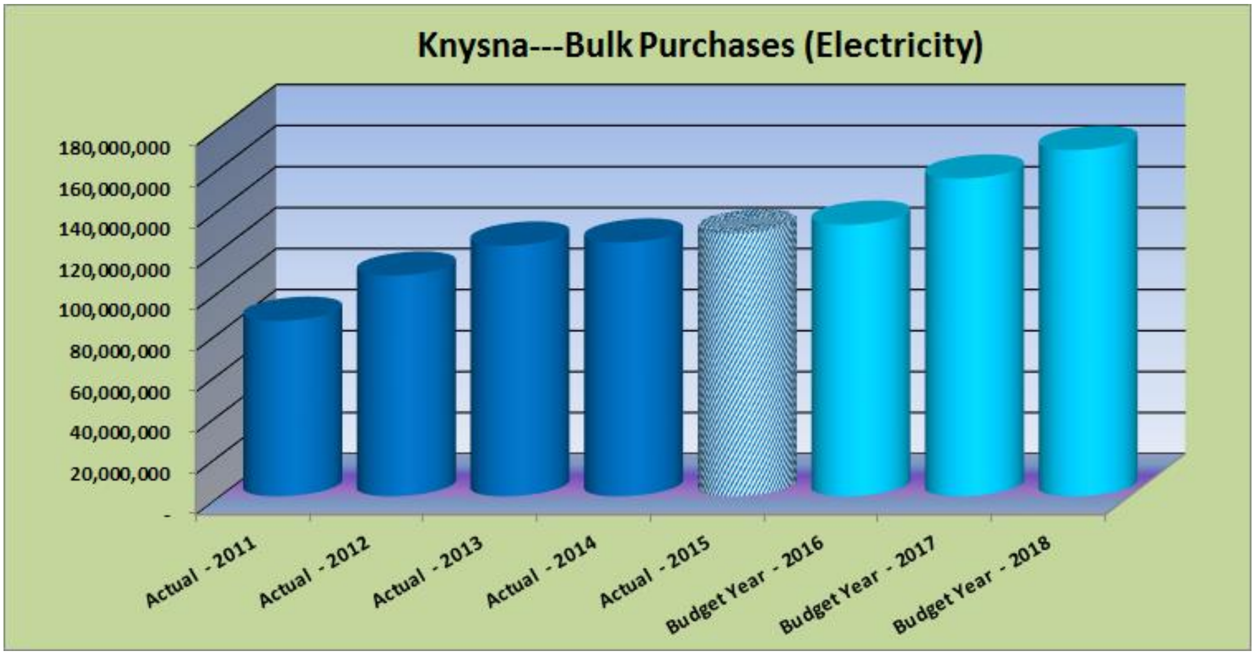


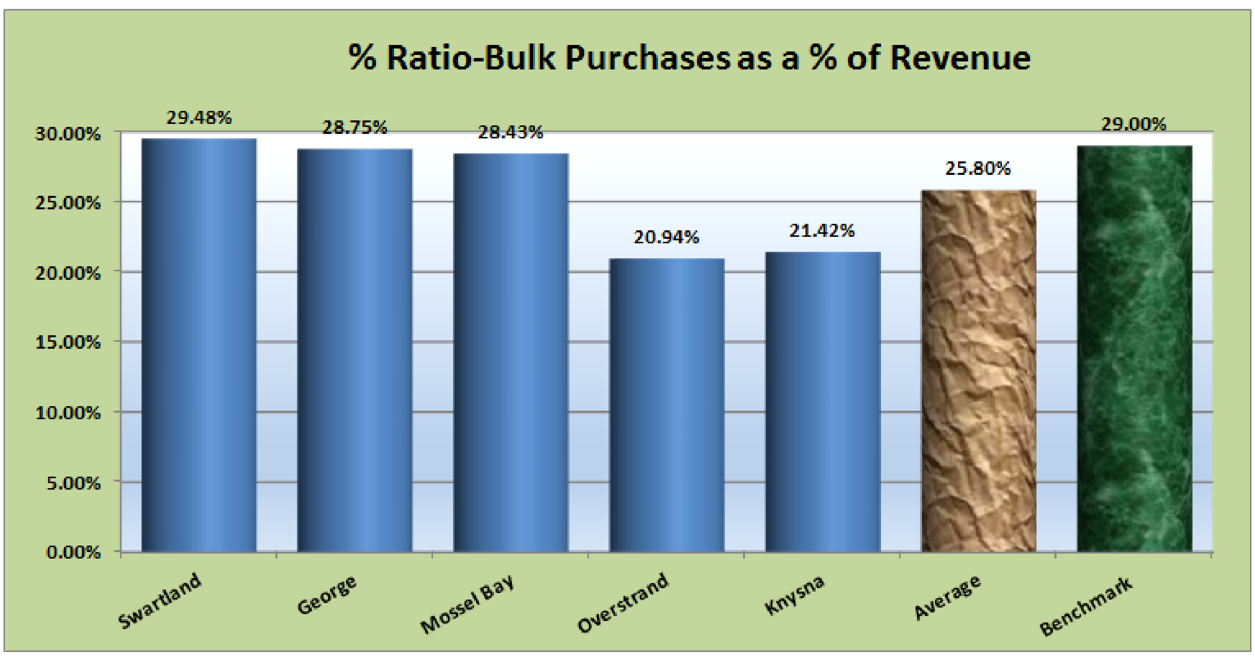


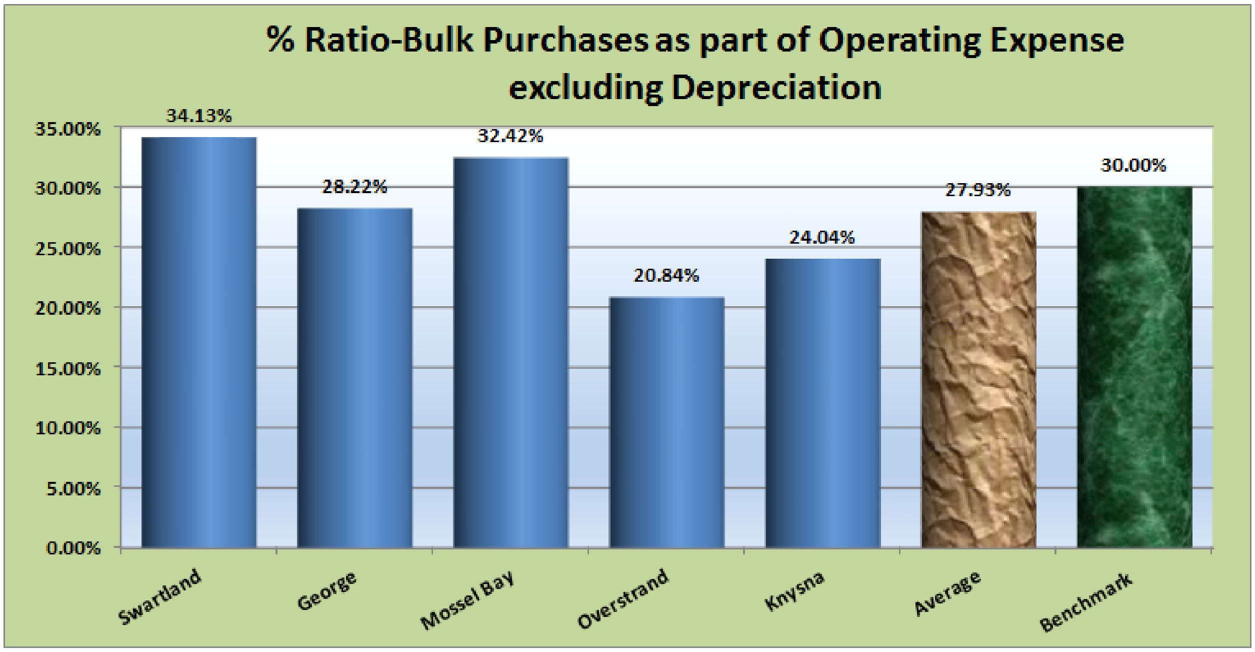
5.4 Bulk Purchases

The increase in bulk purchases is largely beyond the control of the municipality, as this expenditure line item is linked to the level of consumption by consumers as well as increases passed onto the municipality by Eskom (bulk electricity).

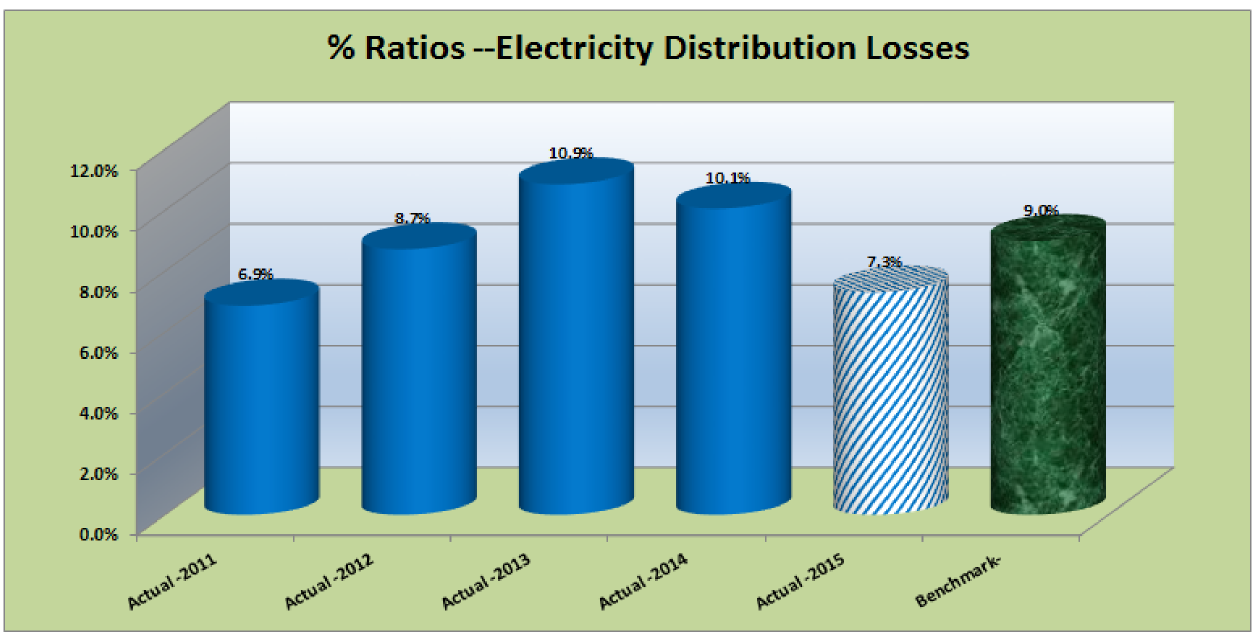
Bulk Purchases for Electricity is set to increase from R 128,22 million in 2014/2015 to R 168,9 million in 2017/2018. These increases represents and average annual increase of 9,7% over the 3 year forecast as indicated below, while at the same time it is estimated that the revenue will increase by 13,93% per annum over the same period from R187,01 million to R276,5 million.





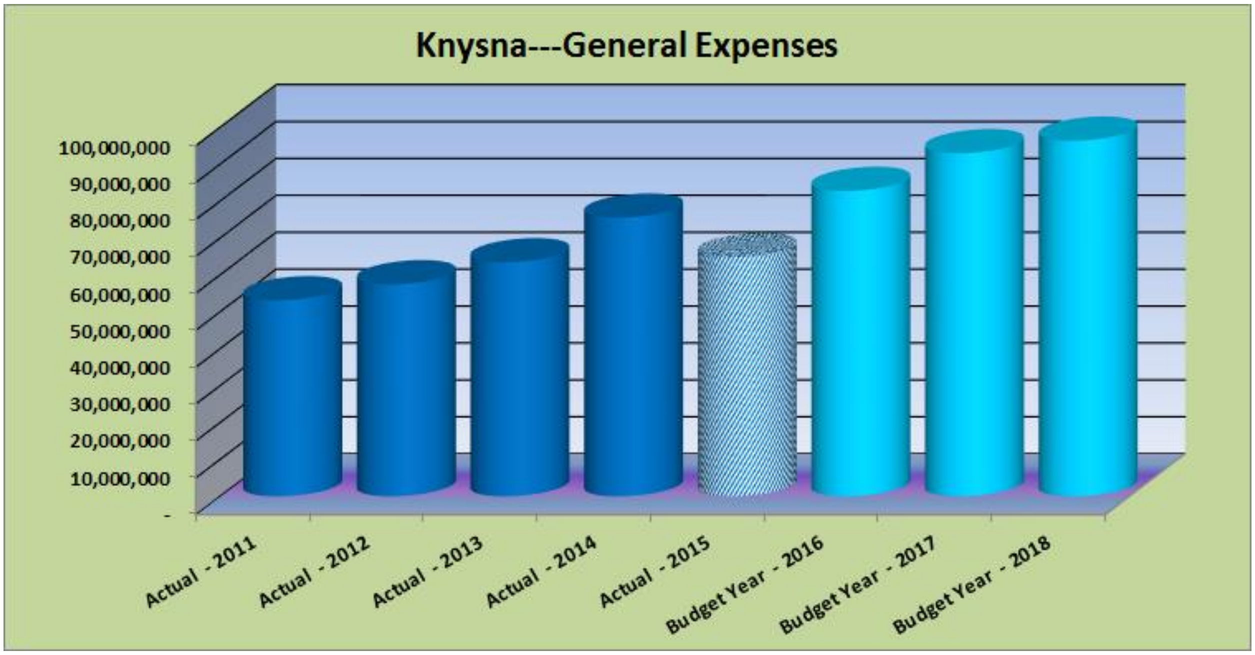


The municipality can control distribution losses to a certain extent by ensuring that infrastructure assets are well maintained, all consumers are billed accurately for water and electricity consumption and by implementing strict controls to limit illegal connections. The municipality's electricity distribution losses are within an acceptable range, but there is a continuous increase in the losses as indicated below and which should be investigated.



5.5 General Expenditure

General expenditure (excluding repairs and maintenance that will be discussed in Section 8 of this report) represents between 19% and 24% of total operating expenditure. This line item includes all expenditure that is not specifically catered for elsewhere in the statement of financial performance. General Expenses are projected to increase at an average annual rate of 3% over the period 2014/2015 to 2017/2018 as indicated below:

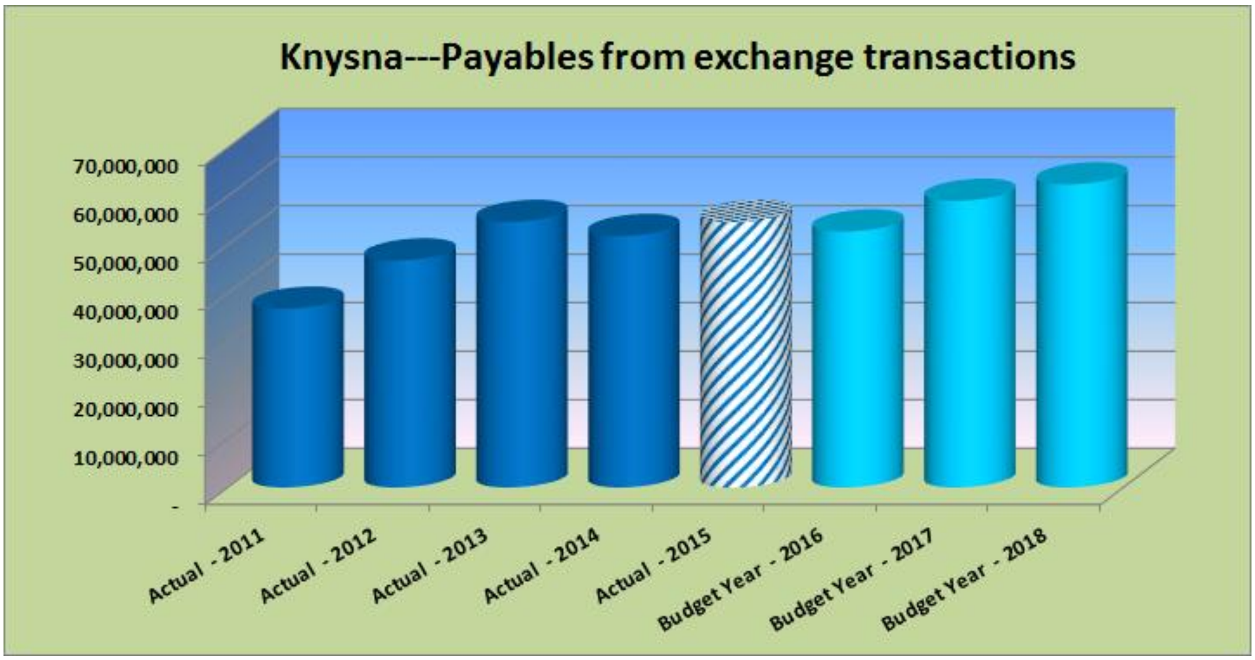


The municipality should review and assess the necessity of all expenditure included in this balance to identify any areas where expenditure can be curbed. The municipality should also refrain from allocating own revenue sources to functions of other spheres of government (unfunded/underfunded mandates). These allocations could pose a financial risk to the municipality due to the fact that funds are being allocated to non-core functions at the expense of basic service delivery. This is also a specific instruction from National Treasury in the latest budget documentation.

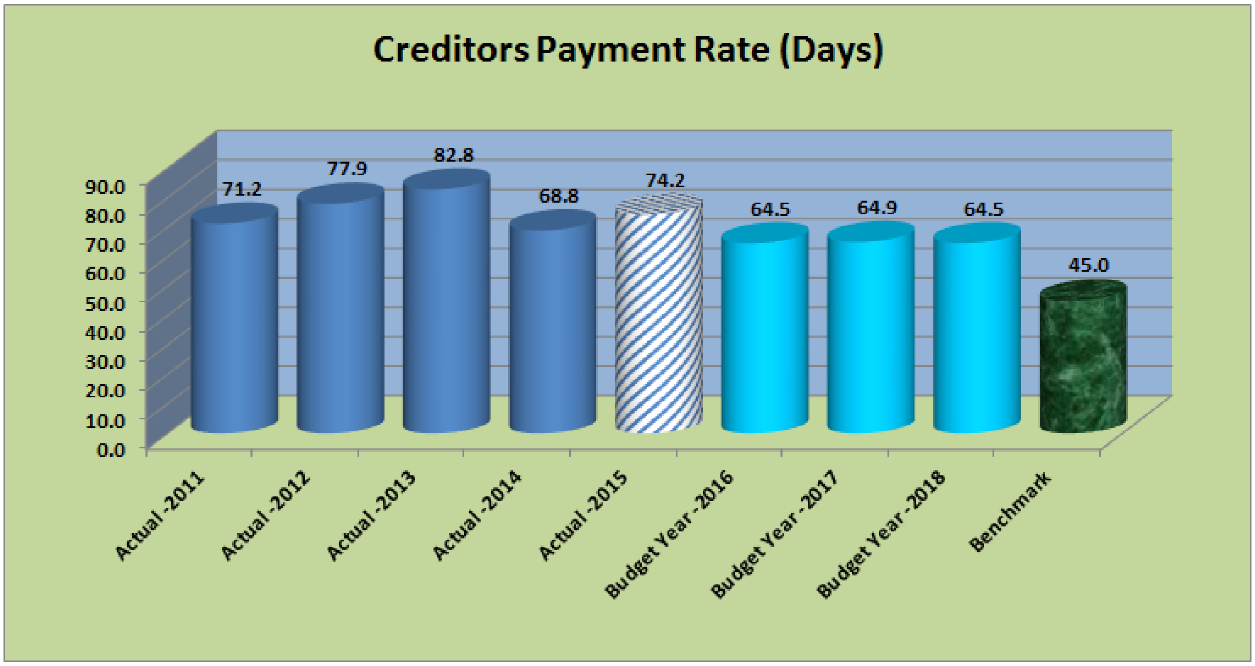
6. SECTION 6: FINANCIAL OVERVIEW: DEBTORS AND CREDITORS MANAGEMENT

Debtor and creditor management forms an integral part of any municipality's long term financial strategy. Municipalities should ensure that they fully utilise credit terms (within the limits of the MFMA) provided to them by suppliers, while also ensuring that any money owing to them is collected as soon as possible. This will ensure that maximum cash levels are maintained at all times, which in turn will result in higher possible returns on money invested by the municipality.

The municipality has always managed to pay creditors when they become due and payable. It is assumed in the compilation of the budgeted figures for the period 2015/2016 to 2017/2018 that the status quo will be maintained and for this reason payables are projected to move in line with estimated operating and capital expenditure programs.

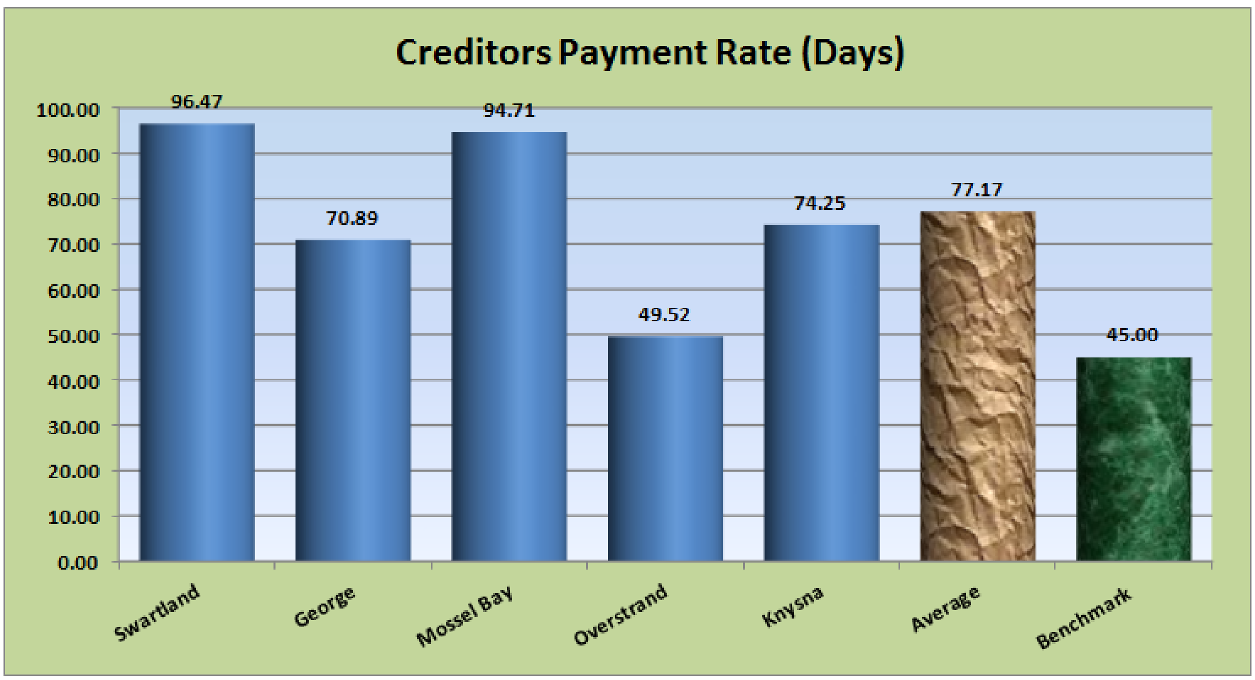


The payment rate of the municipality is expected to be very consistent for the next 3 years. However, any decline in cash balances (refer to section 7) could negatively impact on this ratio.

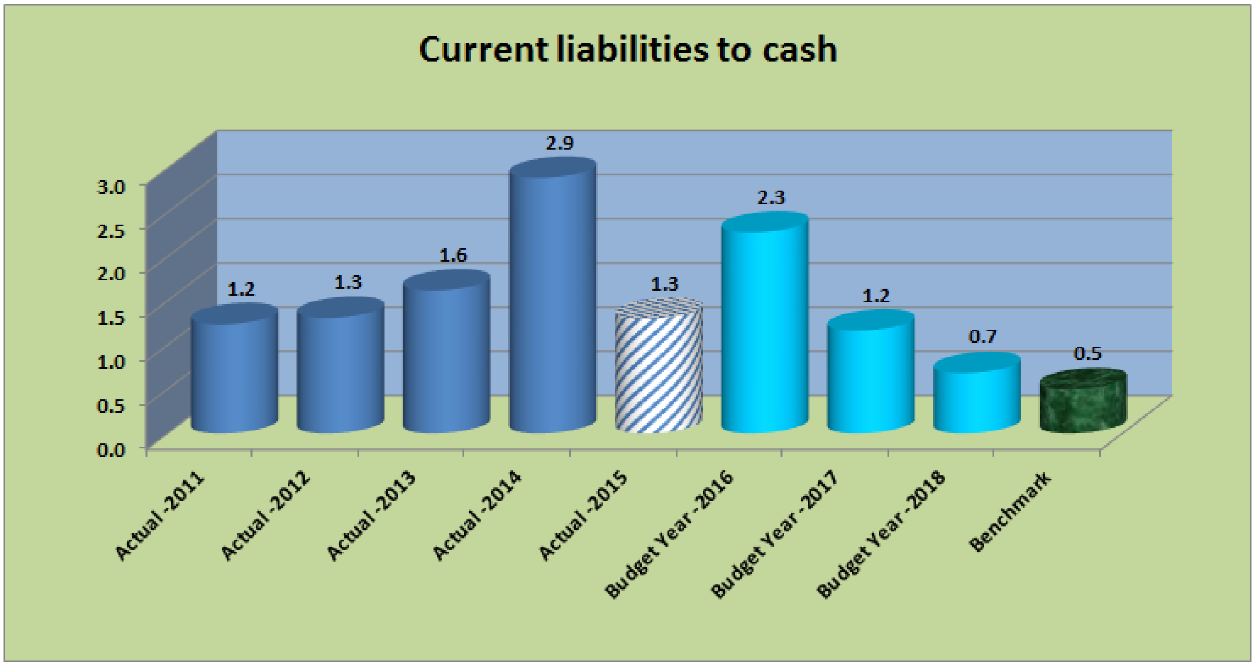


The ratio is above the norm of 45 days. This is not considered an immediate concern as long as payments are affected within MFMA limits. Is should be noted that payables include items such as retentions and staff leave that will not necessarily be converted into cash within the norm of 45 days.

Comparing the payment rate to the Benchmark Group, the municipality is relatively in a better position as its major peers.

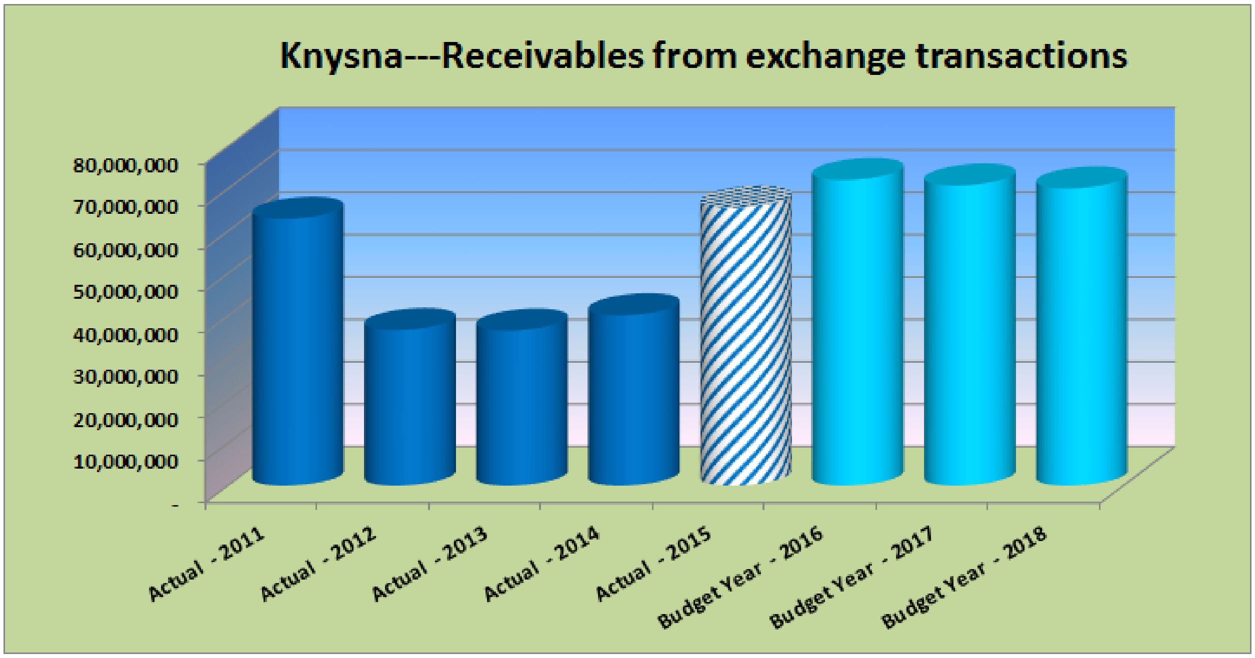


With reference to indicators that can be evaluated, the municipality should review the ratio between current liabilities and cash. This ratio is indicating a negative trend since 2011 and although the future budgets project a better ratio it should be managed carefully to a point below the benchmark of 0.50.

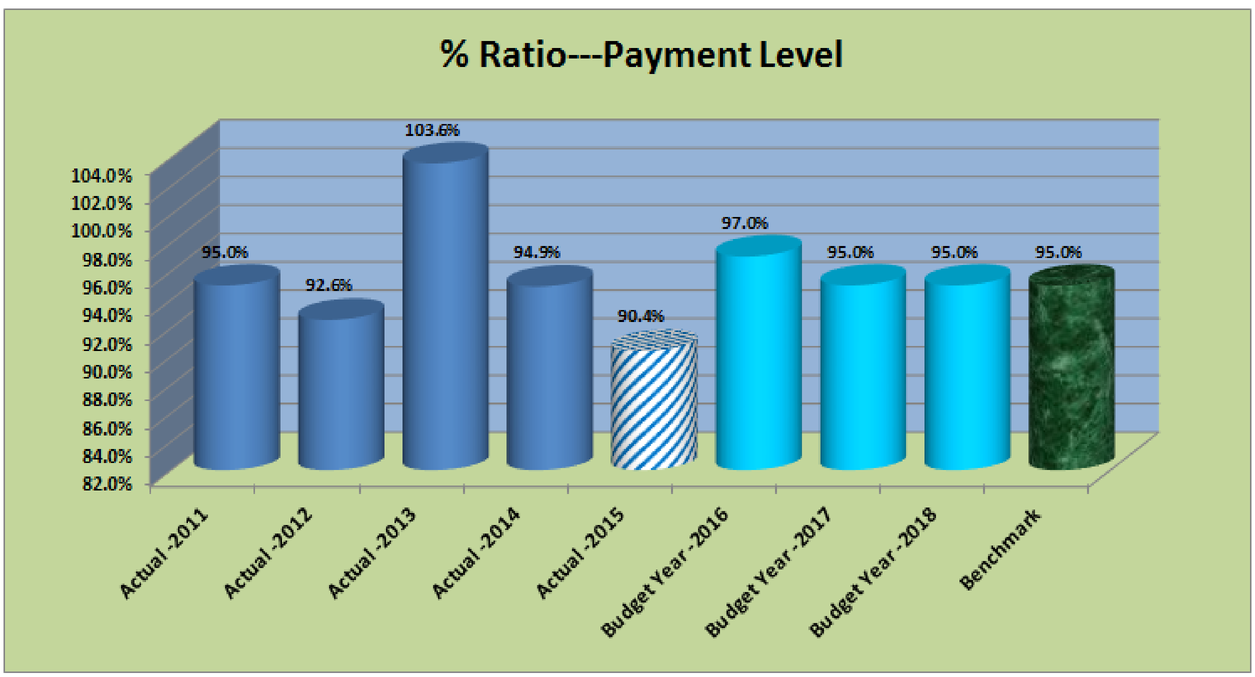


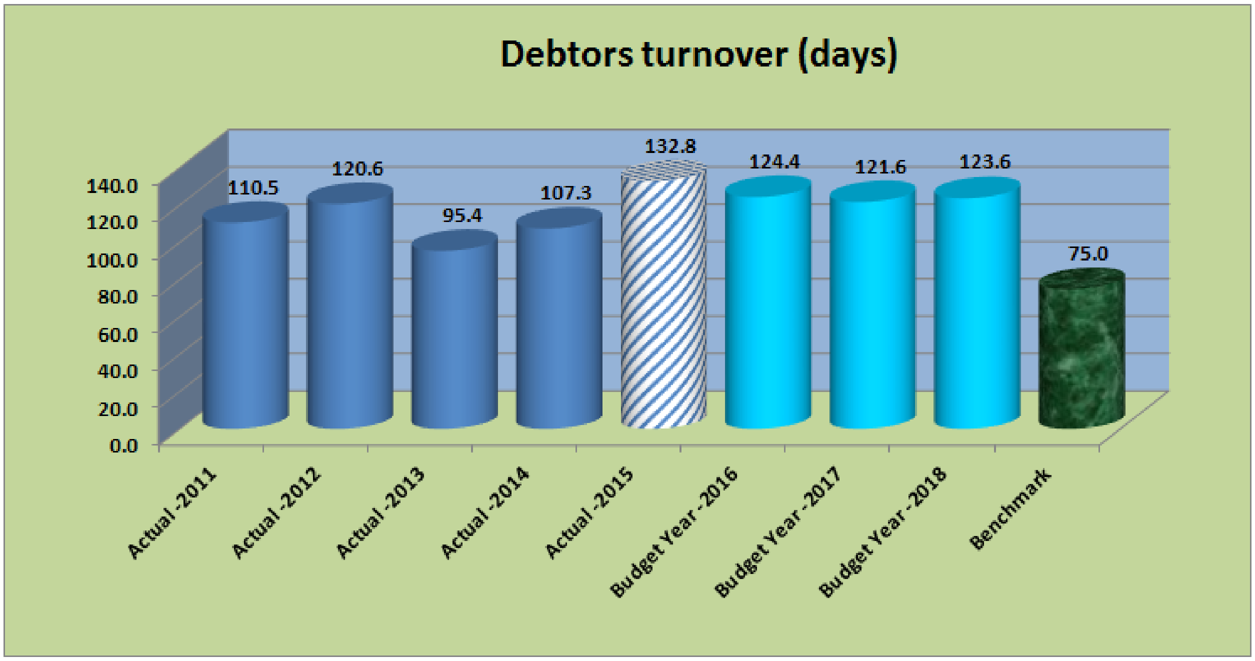
As mentioned before, no major issues exist with regards to the management of payables. The deteriorating trend can be attributed to diminishing cash resources that will be discussed in Section 7 of the report.

Debt collection is considered to be one of the major areas that contribute significantly to the financial well-being of any municipality. By applying strict collection measures, including write-offs, Knysna Municipality has managed to keep outstanding debtors in check. However the budget for the outer years seems a bit optimistic and should be reconsidered.

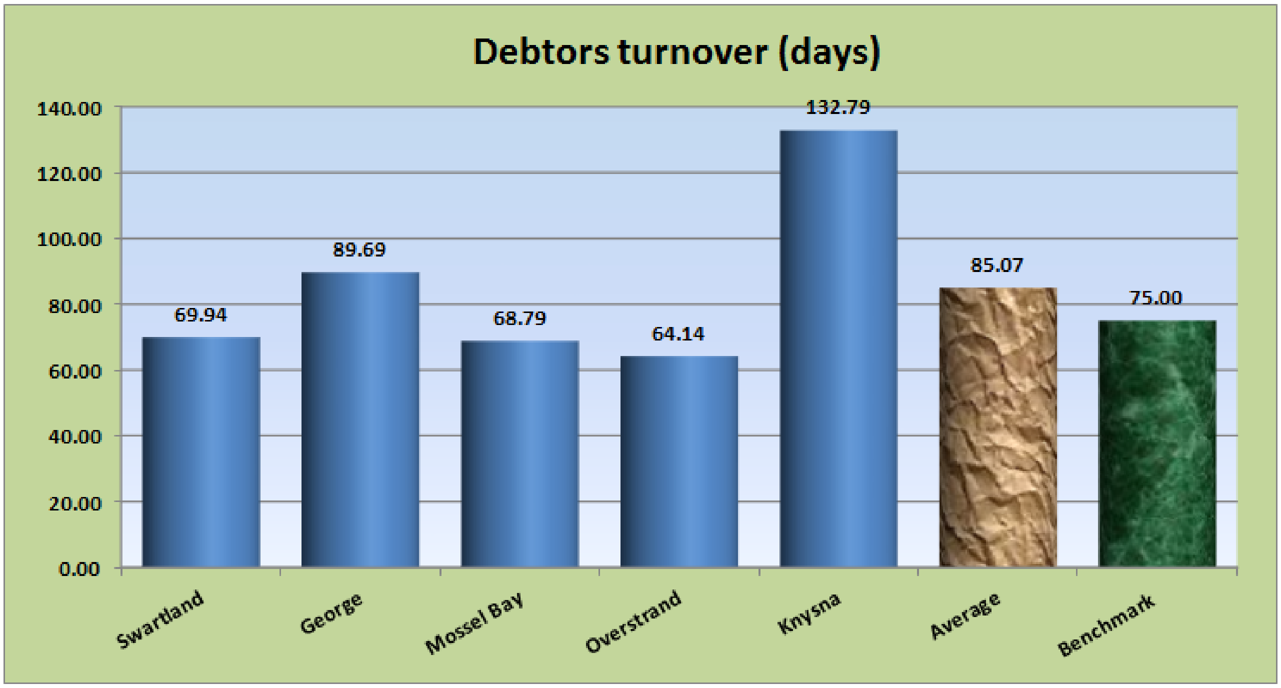


These strict measures resulted in strong performances when evaluating both payment levels (including other debtors) and debtor days as indicated below:





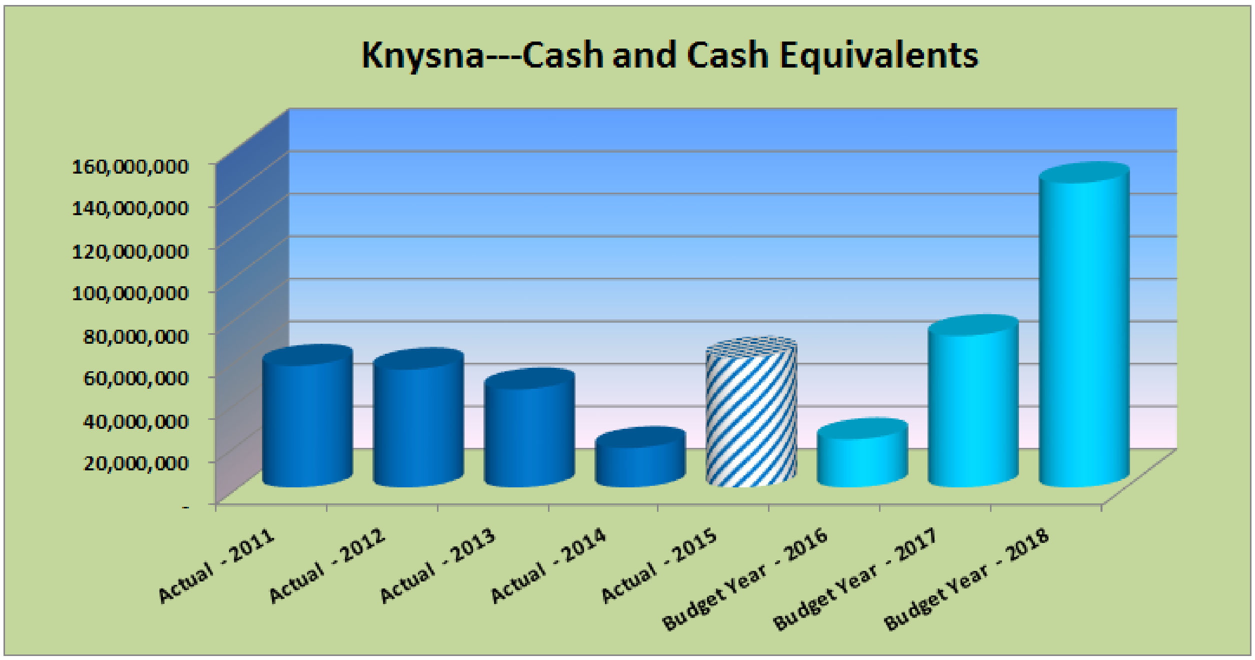
Compared to the Benchmark Group, the municipality's performance relating to debtors is also deemed to be on par but the municipality should reconsider it write-off policy since it is performing worse than most other peers with the Debtors turnover days i.e. the length of time to recover debts.


Debtors turnover (days)
140.00
120.00
100.00
80.00
60.00
40.00
20.00
0.00
69.94
89.69
68.79
64.14
132.79
85.07
75.00
Swartland
George
Mossel Bay
Overstrand
Knysna
Average
Benchmark

7. SECTION 7: FINANCIAL OVERVIEW: CASH MANAGEMENT

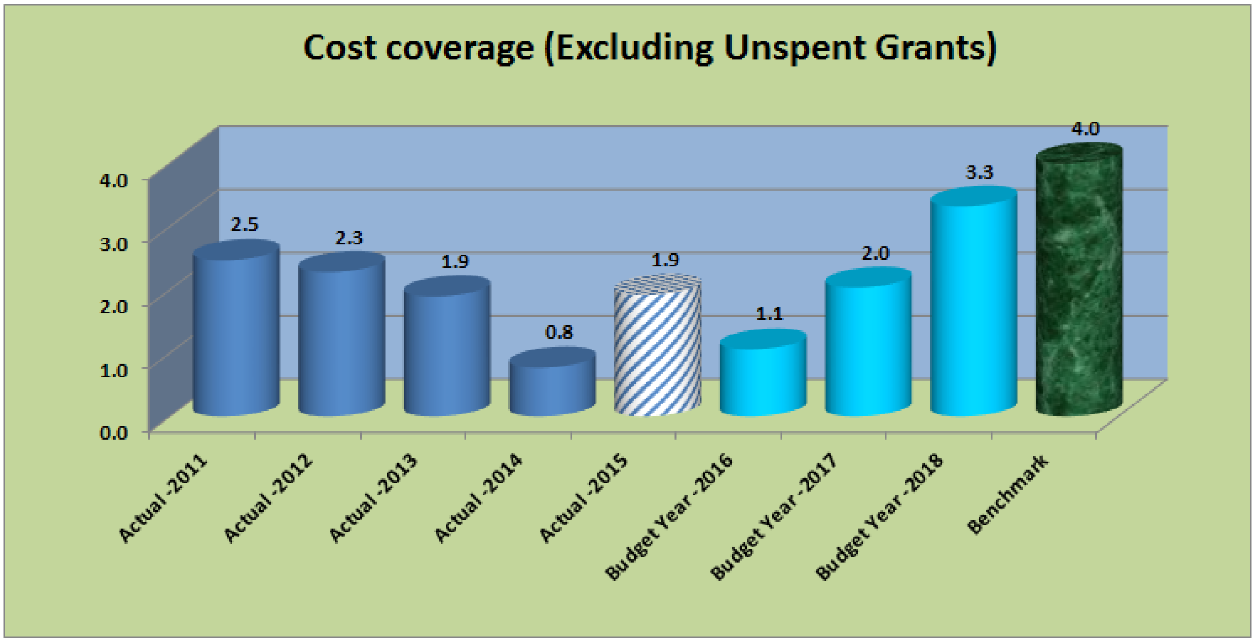
Cash management is the legal obligation to maximize all available resources and productivity levels and minimise ineffective expenditure and risks. This is done to accumulate sufficient cash and cash equivalents to secure the achievement of present and future constitutional objectives within the framework of the long-term financial plan as informed by the institution's integrated development plan.

On the assumption that the municipality will fully implement the capital- and operating programs over the next 5 years, it is projected that there will be positive cash balances for the short term, as illustrated below:

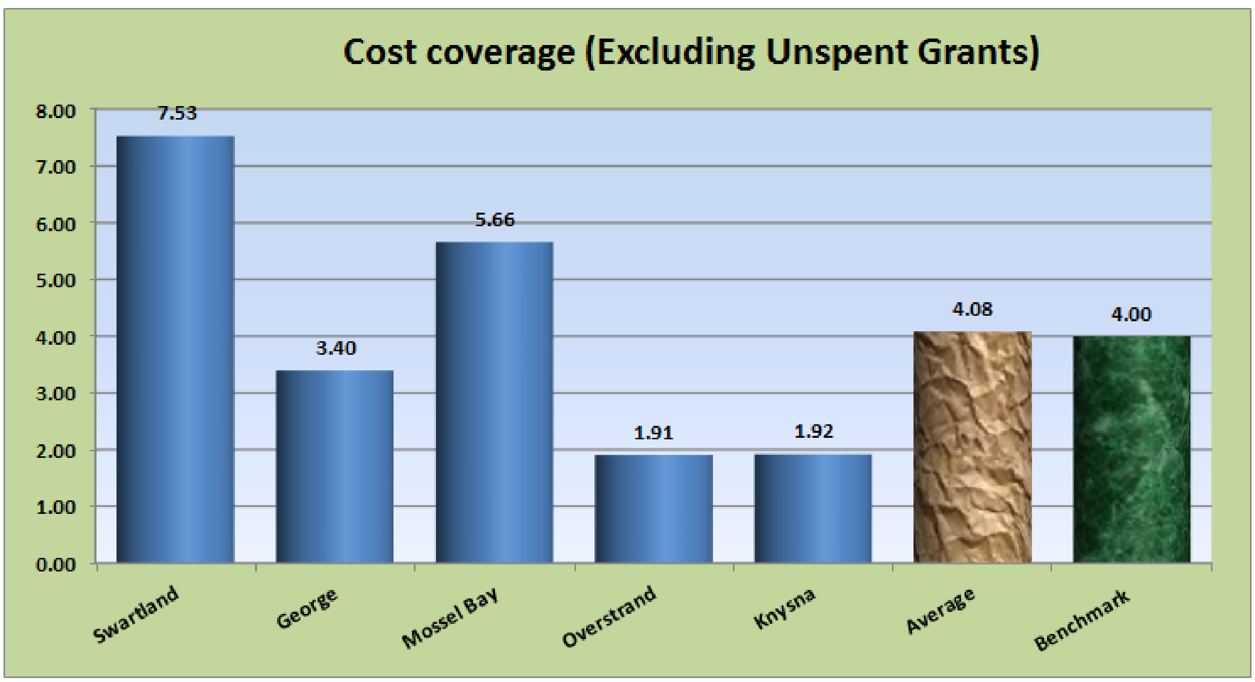


The reality is however that the municipality does not have sufficient cash resources to cash-back its obligations i.e. the short term liabilities and a somewhat over optimistic budget for the outer years with very little capital spending budgeted in 2016/2017 and especially 2017/2018.

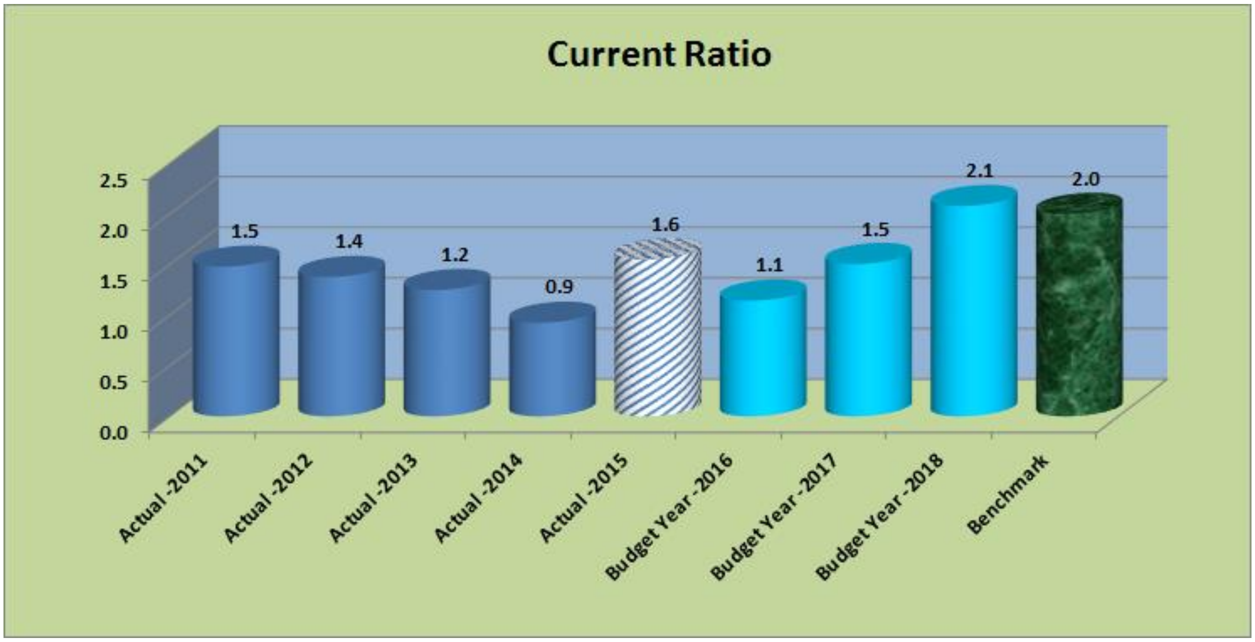
This decline in resources will negatively impact on a cost coverage ratio of the municipality up to a point not soon after the 2018/2019 financial year where the municipality will fully deplete its cash resources if the current expenditure trends are maintained:

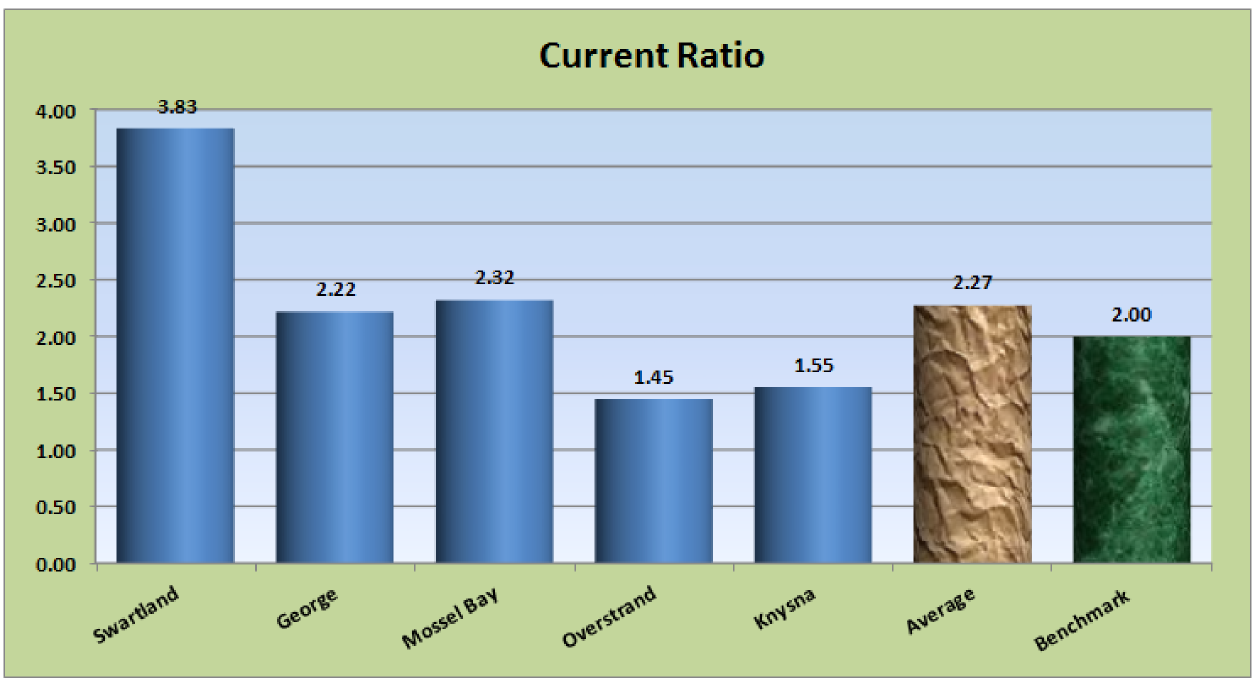


The municipality is almost the worst performing municipality compared to the peers in the Benchmark Group on 30 June 2015:



The declining trend in cash is also negatively impacting in the current ratio of the municipality. This ratio is well below the minimum acceptable level of 2:1 and the level of 0.96 for 2013/2014 which is below the level of 1 is in fact indicative that the municipality's current liabilities exceeds its current assets. This trend continues even until 2016 and recovers slightly towards the 2017/2018 budget year. The only way the municipality can then "fund" its short term debt is by way of increasing its payables.

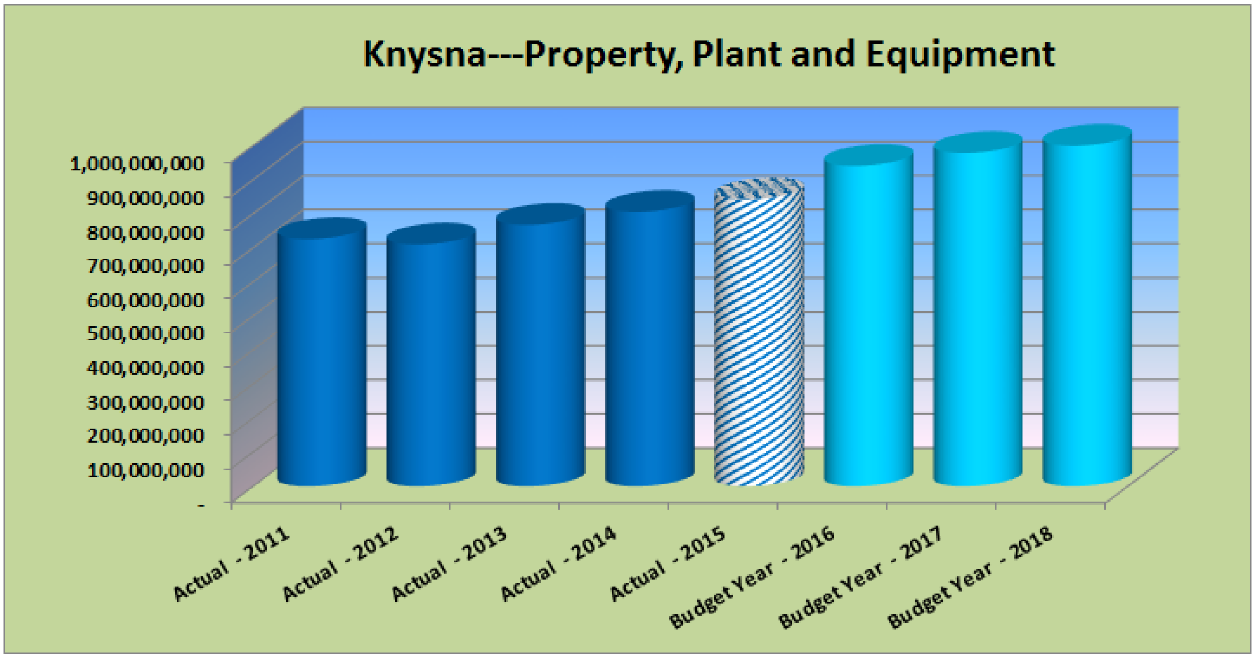




To ensure the financial viability of the municipality, that is largely dependent on the preservation of cash reserves, the municipality should address the downward trend in cost coverage and current ratio as a matter of urgency. Even though it is prescribed by Circular 71 of the National Treasury that a cost coverage ratio of 1 to 3 months should be maintained at all times, the municipality is best advised to ensure that this ratio remains at a level of 4 as recommended per the model developed by the Western Cape Provincial Treasury.

8. SECTION 8: FINANCIAL OVERVIEW: ASSET MANAGEMENT

Knysna Municipality has a large investment in property, plant and equipment (PPE). The carrying value of PPE is projected increase substantially over the period (despite the low budgeted capital expenditure for the outer years) as the capital expenditure significantly exceeds the level of depreciation charges per year:



This large investment in PPE is basically the result of a continued large capital program employed at the municipality to ensure that basic services are delivered at all times and service delivery backlogs are addressed. The municipality should however be conscious of the fact that a significant capital program, if not financed through a well-balanced mix (grants, long term liabilities and accumulated internal funds), can have a negative effect on the financial sustainability of the municipality. Not only does the outflow of cash (as a result of the acquisition) have a potential negative impact on the financial viability of the municipality, the maintenance burden placed on the municipality could also be significant.

It is projected that the municipality will employ the following capital program over the next 5 years (2014/2015 to 2018/2019) – (as per the 2015/2016 Budget):

R thousand	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Total Capital Expenditure - Standard	**89,134**	**102,683**	**70,240**	**58,992**
Funded by:				
National Government	21,317	25,532	24,557	24,505
Provincial Government	29,300	30,733	22,029	16,522
District Municipality	–	–	–	–
Other transfers and grants	50	–	–	–
Transfers recognised - capital	**50,667**	**56,265**	**46,586**	**41,027**
Public contributions & donations	–	–	–	–
Borrowing	17,105	14,732	12,570	10,660
Internally generated funds	21,363	31,686	11,084	7,305
Total Capital Funding	**89,134**	**102,683**	**70,240**	**58,992**

To ensure that the above structure is affordable, the program should be evaluated against the municipality's ability to generate cash to meet the demand of the program. The decline in cash resources over the past years can clearly be seen below where capital spending exceeds available cash generated for the periods. The low capital budget for the outer years indicates a positive cashflow, however it is doubtful whether this can be obtained given the level of capital expenditure in the past.

R thousand	Audited Outcome 2011/2012	Audited Outcome 2012/2013	Audited Outcome 2013/2014	Original Budget 2014/2015	Adjusted Budget 2014/2015	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
NET CASH FROM/(USED) OPERA	**68,828**	**79,820**	**77,636**	**67,849**	**87,006**	**115,234**	**127,109**	**142,543**
Borrowing long term/refinancing	8,254	–	–	16,057	17,105	14,732	12,570	10,660
Repayment of borrowing	(16,583)	(18,110)	(27,549)	(16,132)	(18,196)	(19,700)	(20,353)	(25,077)
Cash available for capital purposes	60,499	61,710	50,087	67,774	85,914	110,266	119,326	128,126
Capital assets	(60,096)	(74,430)	(77,218)	(70,174)	(89,134)	(102,683)	(70,240)	(58,992)
Surplus / Shortfall	403	(12,720)	(27,131)	(2,400)	(3,220)	7,584	49,086	69,134

It is evident, taking the above comments re the capital budget into account, that insufficient funds are generated from operations to meet the demand of the capital program. Even taking into account the proposed loans to be raised, the capital program will still significantly contribute to the decline in cash resources as identified in Section 7 of this report.

The municipality is left with the following alternatives to ensure that the capital program is affordable:

1) Raise more loans to fund the program. This will require a further study into the level of external funding the municipality can afford (Refer to Section 9);
2) Cut back on operational expenditure and/or increase internal revenue sources;
3) Explore further avenues to obtain more grant funding (keeping in mind the additional maintenance expenditure that will still be the liability of the municipality even though the additional acquisition is financed from external sources); and/or

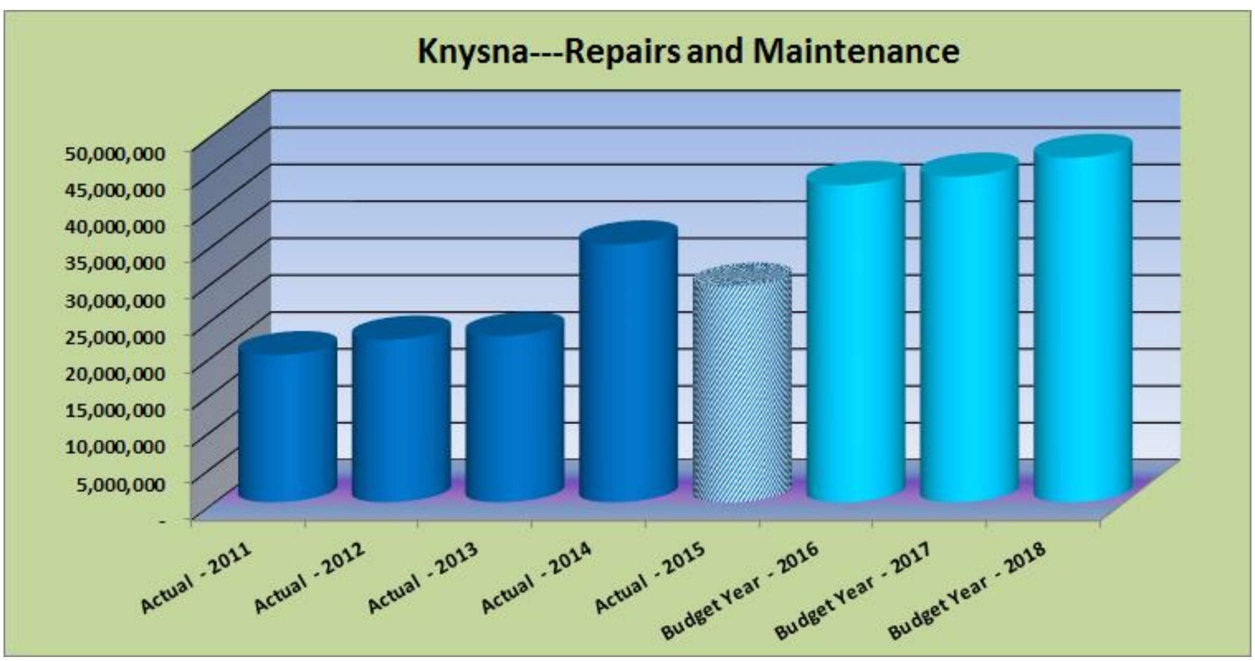
4) Reduce the capital program to ensure that it is affordable within the limitations of the current structure the municipality is operating in.

Decisions relating to the perfect capital program to be employed are one of the toughest in the municipal environment. The municipality needs to strike a balance between providing high quality basic services and eradicating service backlogs **versus** the availability of funding.

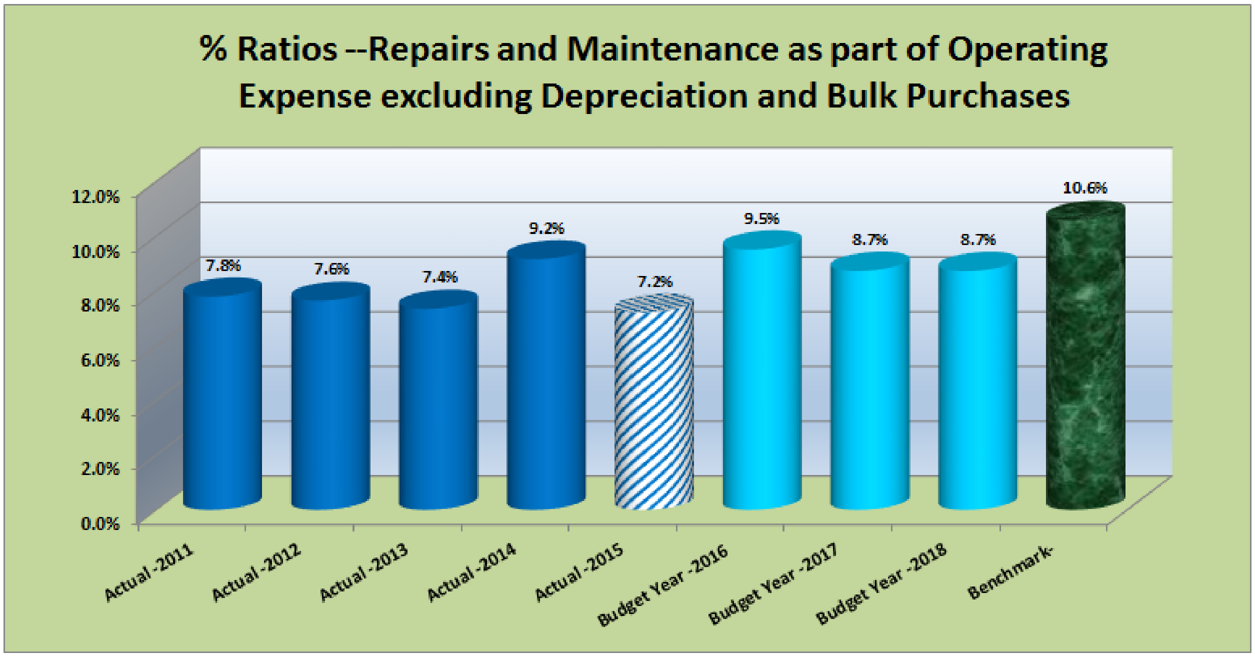
The funding mix of the capital program should never compromise the long term sustainability of the municipality. Once the financial sustainability of the municipality is compromised, it will inevitably result in a negative outcome for all parties involved due to the fact that the municipality will not be in a position to meet the service delivery expectations of the community for the foreseeable future. This scenario is very common at a number of municipalities in South Africa.

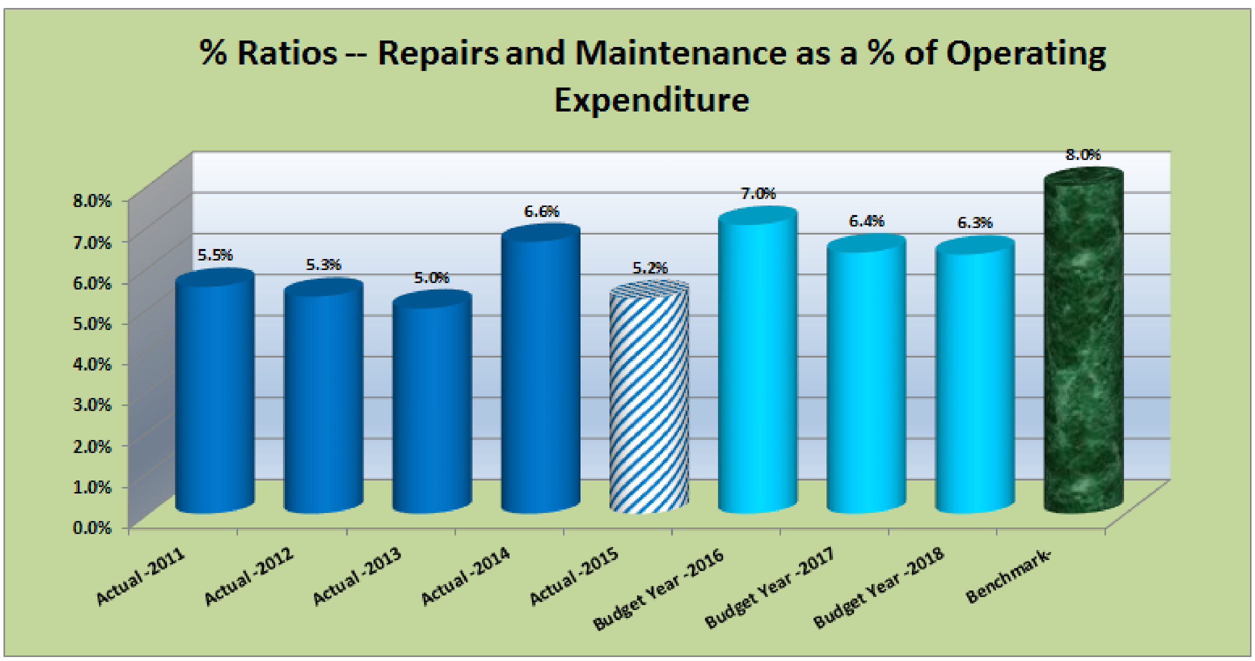
Furthermore, given the fact that the current capital program is already exceeding the limit of what the municipality can afford, the municipality have major other capital needs that are not included in the budgeted figures to date. The pavement management system alone requires capital spending of about R85 million to ensure the attainment of projected useful lives. As the housing backlog is eradicated further massive infrastructure needs will arise.

Repairs and maintenance is also considered to be one of the major line items relating to asset management. Repairs and maintenance is very important to ensure that full benefits are derived from assets over the initial expected life time of the assets. Insufficient allocations to repairs and maintenance could result in shortened useful lives of assets. This in turn will result in assets needing replacement sooner rather than later. The following allocations are made towards repairs and maintenance:



Compared to set benchmarks, the municipality is not contributing sufficient resources to the maintenance of asset, however it is not far from the benchmark guidelines.





An insufficient contribution to repairs and maintenance could potentially be a major contributing factor to the following analysis where the average useful life of assets (per service) is compared between the municipalities in the Benchmark Group (in total). The municipality performs exceptionally well and is it a clear indication that on average the municipality's assets are in a much better shape than that of its peers. This should be maintained.

KNYSNA PER SERVICE:

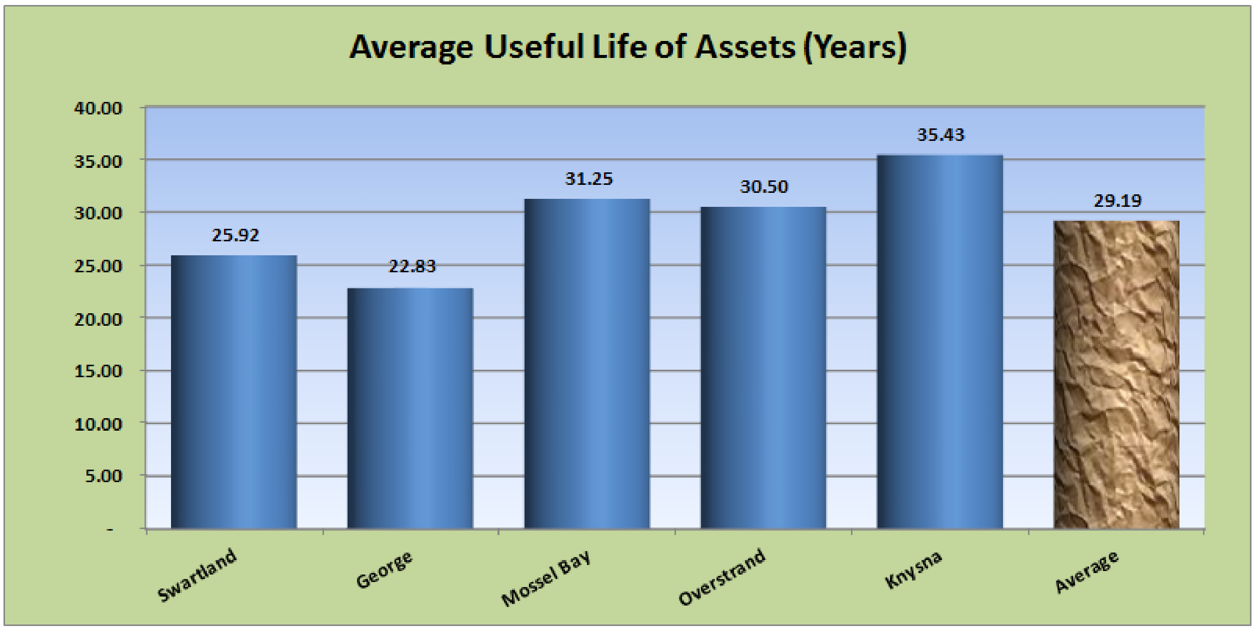
Sewerage – 33 years

Electricity – 34 years

Water – 30 years

Roads – 32 Years

BENCHMARK GROUP – TOTAL ASSETS



9. SECTION 9: FINANCIAL OVERVIEW: FUNDING AND RESERVE STRATEGY

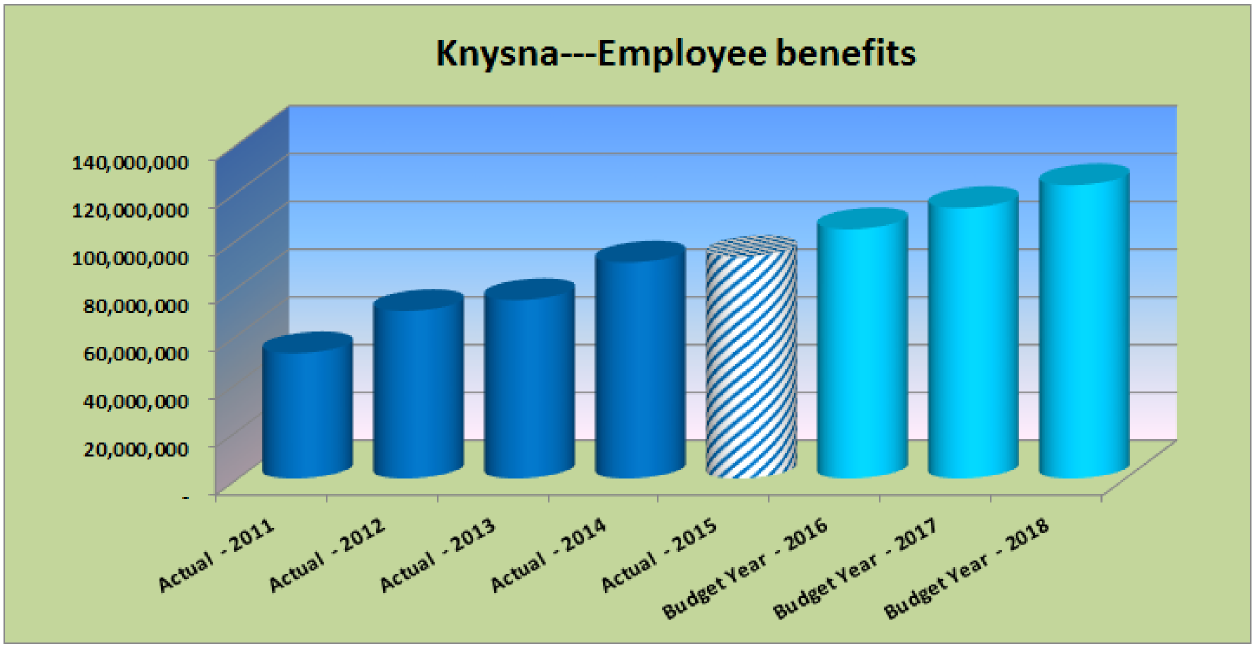
The funding and reserve strategy consists out of three components:

- Management of Reserves
- Management of external debt
- Investment Strategy

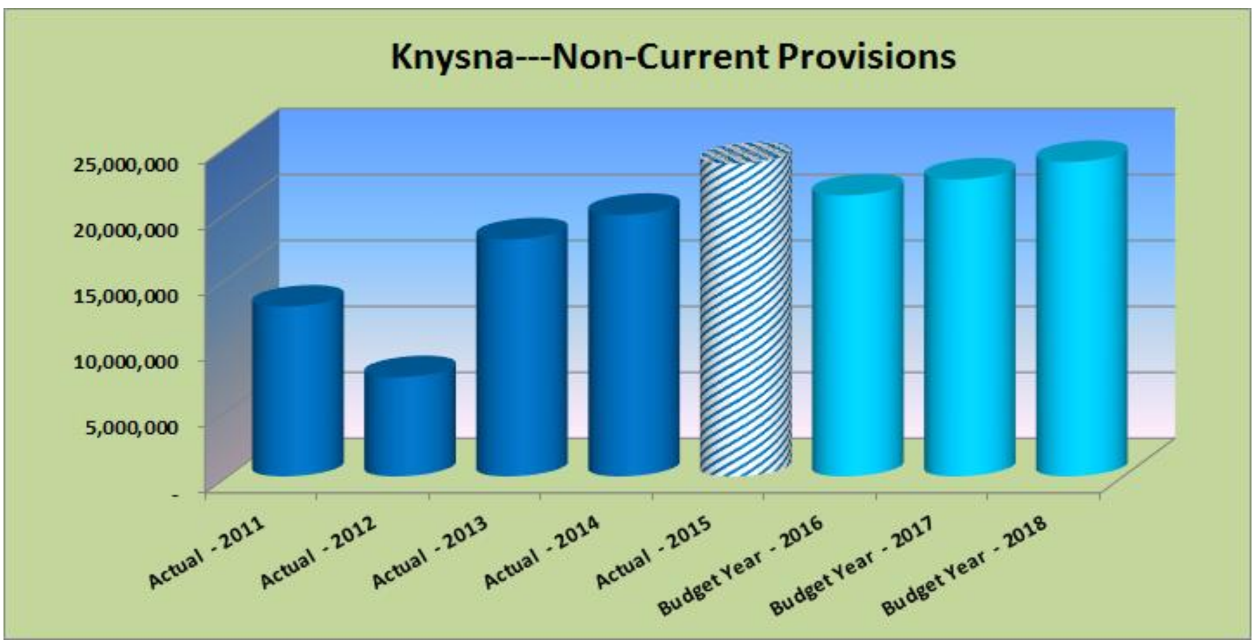
In order to maintain any form of reserve, the municipality needs to ensure that sufficient cash resources are available to back the reserve. With the downward trend in cash identified in Section 7 of this report, the municipality will not be able to maintain, let alone increase, any of the current reserves that is being utilised.

Apart from the Capital Replacement Reserve, that is utilised to provide funding for internally funded projects, the municipality also recognised the need for other reserves to be created by way of the municipality's Funding and Reserves Policy in terms of the Municipal Budget and Reporting Regulations. With reference to the statement of financial position, the municipality has material non-current provisions in the form of Employee Benefit Provisions (Long term awards and Post-retirement medical benefits) and Rehabilitation Costs. There is currently no legal requirement to ensure that these provisions are cash-backed. However, the municipality should implement strategies that will enable the cash-backing of reserves to ensure that these provisions are cash funded when it becomes due and payable. This will also ensures the principle of "the user pays".

The employee benefit provision (including short-term employee benefits) was stated at R 115,3 million on 30 June 2015 and is projected to increase to R 122,8 million in 2017/2018.



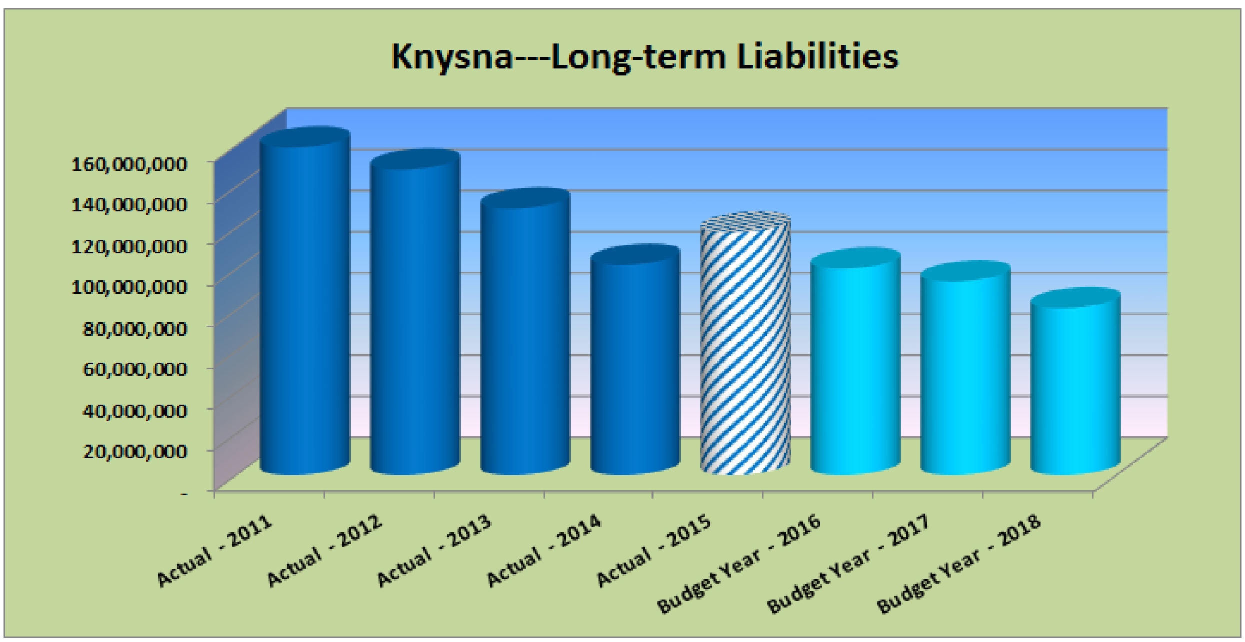
A lesser Non-current provision, in order to eradicate Alein Vegetation and to rehabilitate closed refuse dumping sites, was also created, as follows:



The cash position of the municipality does not allow for these reserves to be cash backed. Strategies to increase the cash position is of utmost importance. The net cash position of the municipality, as at 30 June 2015 Is as follows:

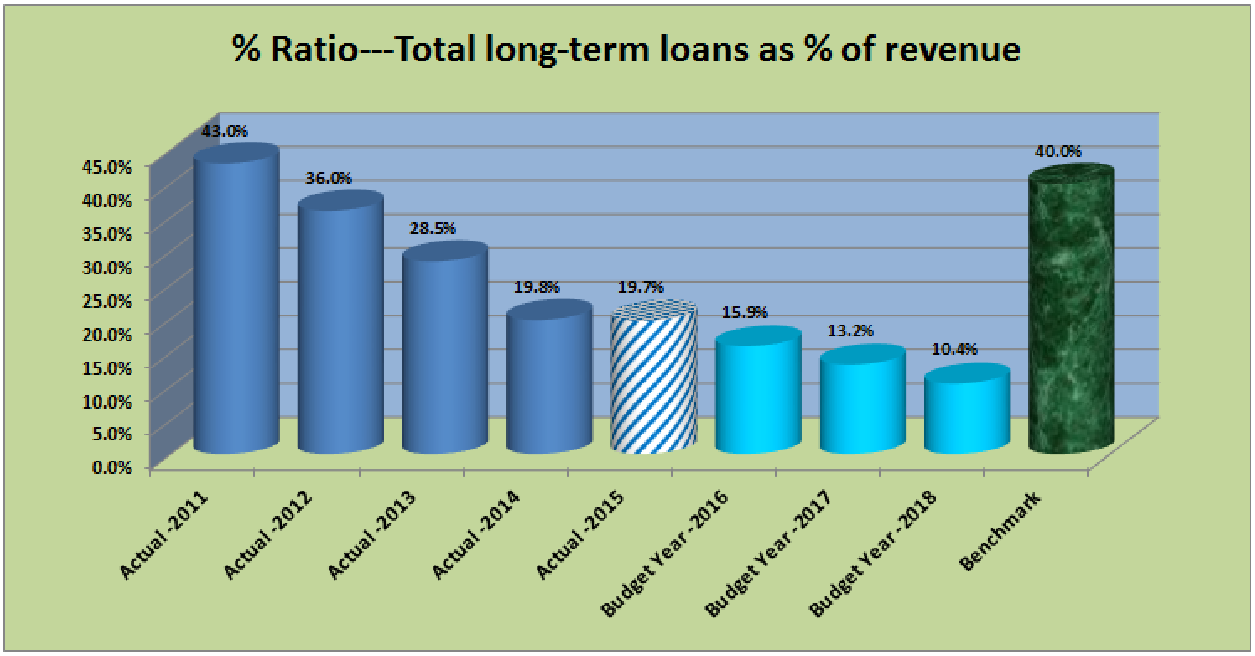
RECONCILIATION OF AVAILABLE CASH AND INVESTMENT RESOURCES	R
Cash and Cash Equivalents - Note 42	60,898,094
Investments - Note 15	24,132,741
	85,030,835
Less:	44,676,232
Unspent Committed Conditional Grants - Note 9	11,393,523
Secured Investments - Notes 3 and 15	33,282,708
Net cash resources available for internal distribution	**40,354,603**
Allocated to:	
Capital Replacement Reserve - Refer to Note 2	(25,000,000)
Employee Benefits Reserve - Refer to Note 2	(7,850,034)
Non-Current Provisions Reserve - Refer to Note 2	(4,274,341)
Valuation Roll Reserve - Refer to Note 2	(1,648,000)
Resources available (shortfall) for working capital requirements	**1,582,227**

External borrowing is an important part of the funding model of the municipality. Not only does it instantly provide the municipality with relatively inexpensive capital to fast-track service delivery and infrastructure backlogs, but it also ensures that the user of the infrastructure pay for the use over the lifetime of the asset. The current capital program provides for a significant portion of the program to be financed through external financing. Over the period up to 30 June 2018, the outstanding long term liabilities of the municipality are expected to reduce as follows:

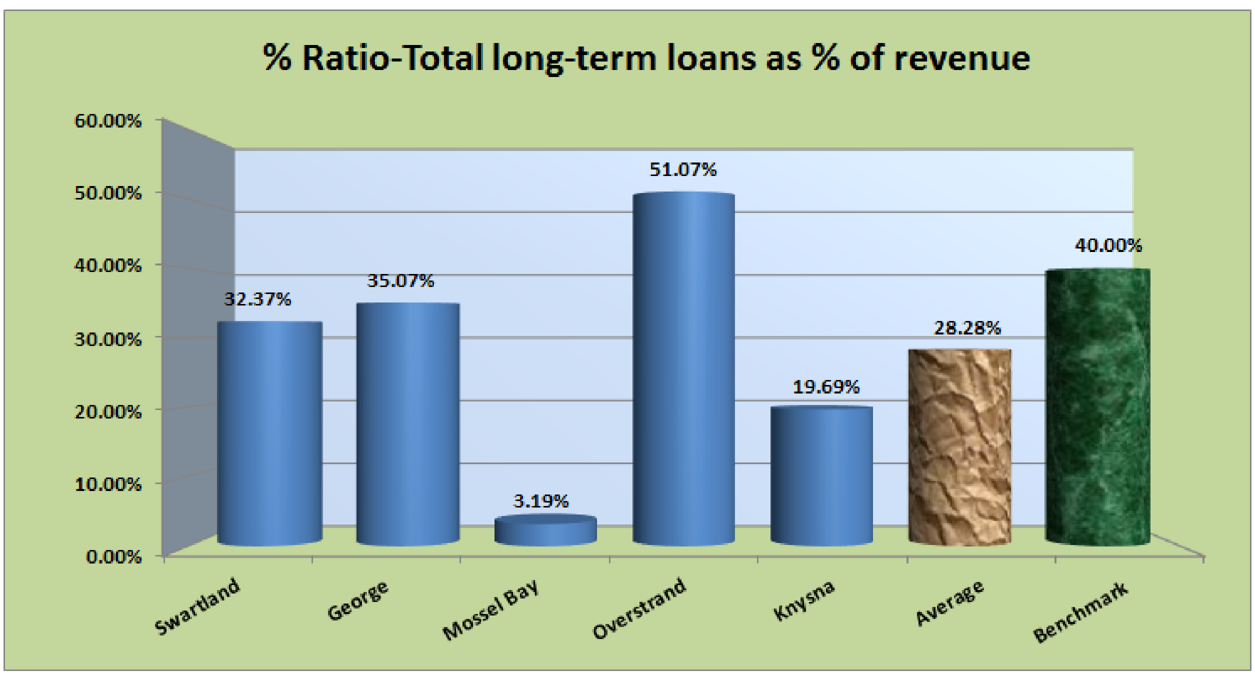


The municipality utilises a debt-ceiling of 40% of revenue. Based on this ratio, it can be seen that the municipality is set to remain well within these limits up to the 2017/2018, in fact there is space for additional loans of about R95 million (excluding inflation growth) to be raised over a period of time.

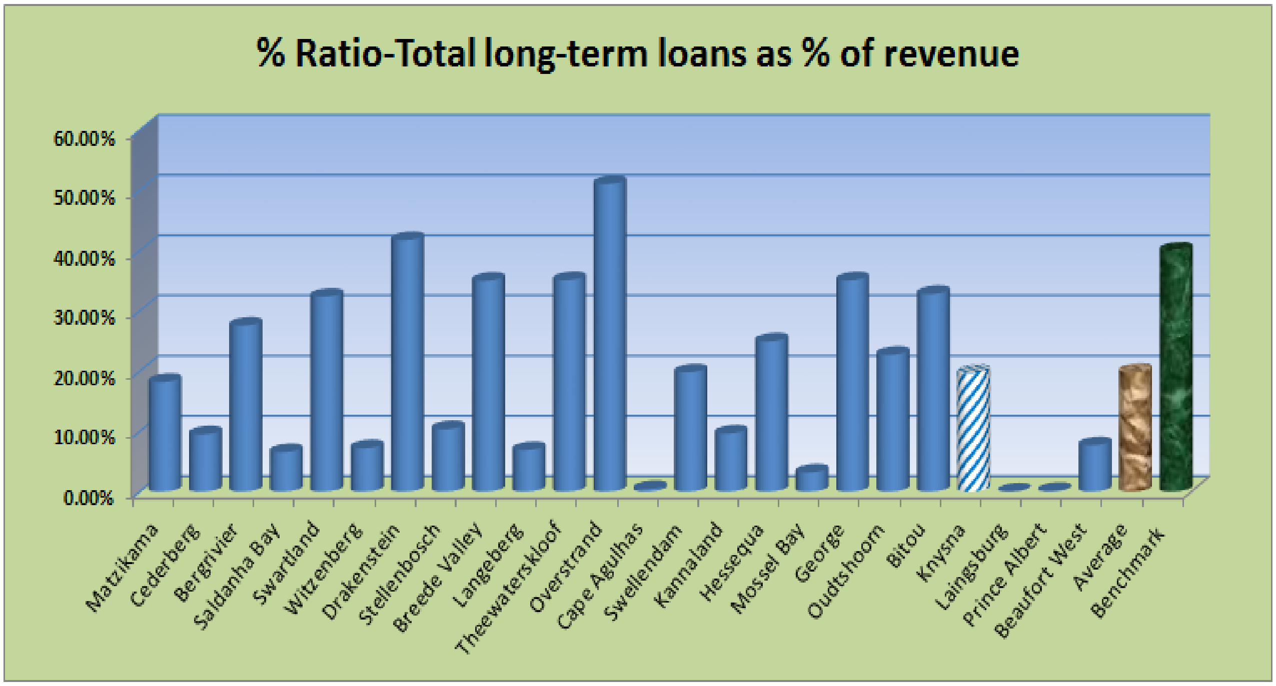
Caution should however be exercised at the rate of raising the loans as well as the interest rates and periods of the loans.



Compared to the other municipalities in the Benchmark Group as well as the benchmark set, Knysna Municipality is geared favorably towards any additional external loans. (It must be emphasized that Mossel Bay have huge cash resources with little need for loans.



If compared to the municipalities in the Western Cape, Knysna Municipality is one of the better performing municipalities.



The final component of the funding and reserve strategy relates to investments. The municipality is currently employing a sound strategy with regards to investments as investment returns surpassed the budgeted returns for the 2013/2014. These sound strategies should be maintained to ensure that excess cash is invested at all times to maximize returns.

10. SECTION 10: RISK MANAGEMENT

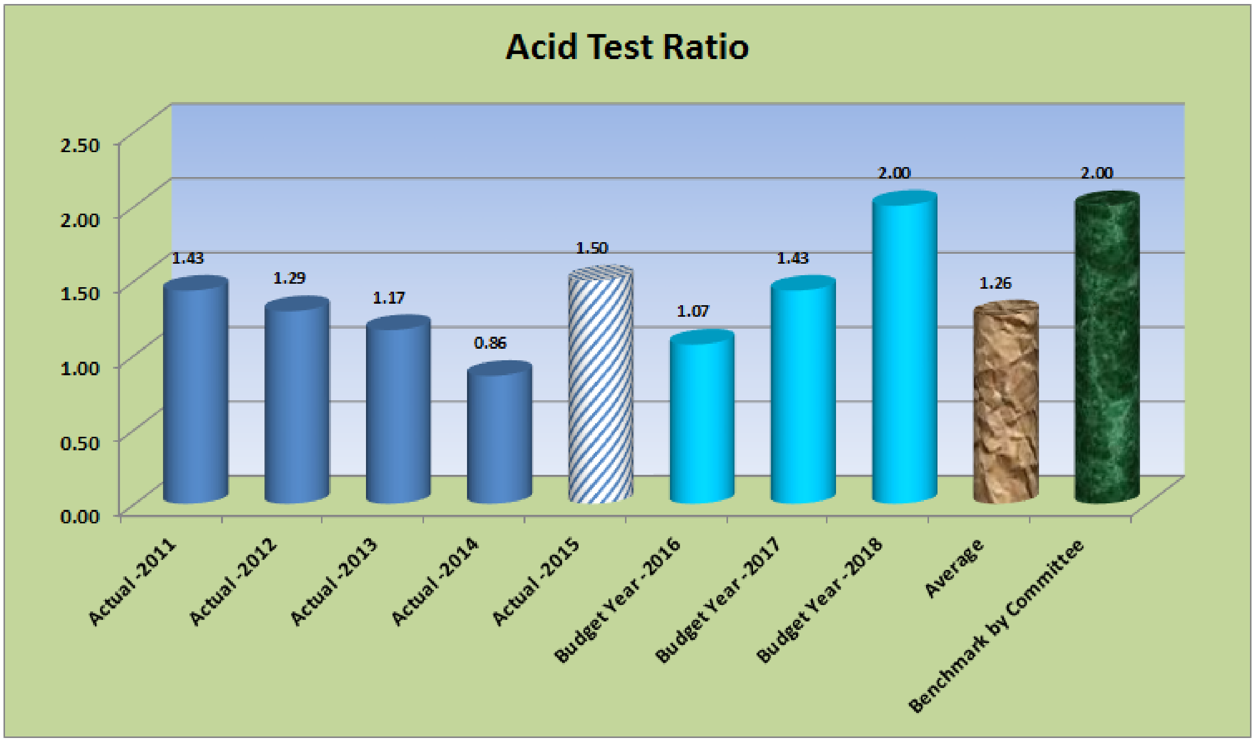
The risk analysis model utilised by Knysna Municipality and based on the model jointly developed by Swartland Municipality and the Western Cape Provincial Treasury assesses 10 key ratios that is considered the most important indicators when assessing the long term viability of the municipality. A weighting is attached to each indicator that will eventually provide the municipality with a viability score out of 100.

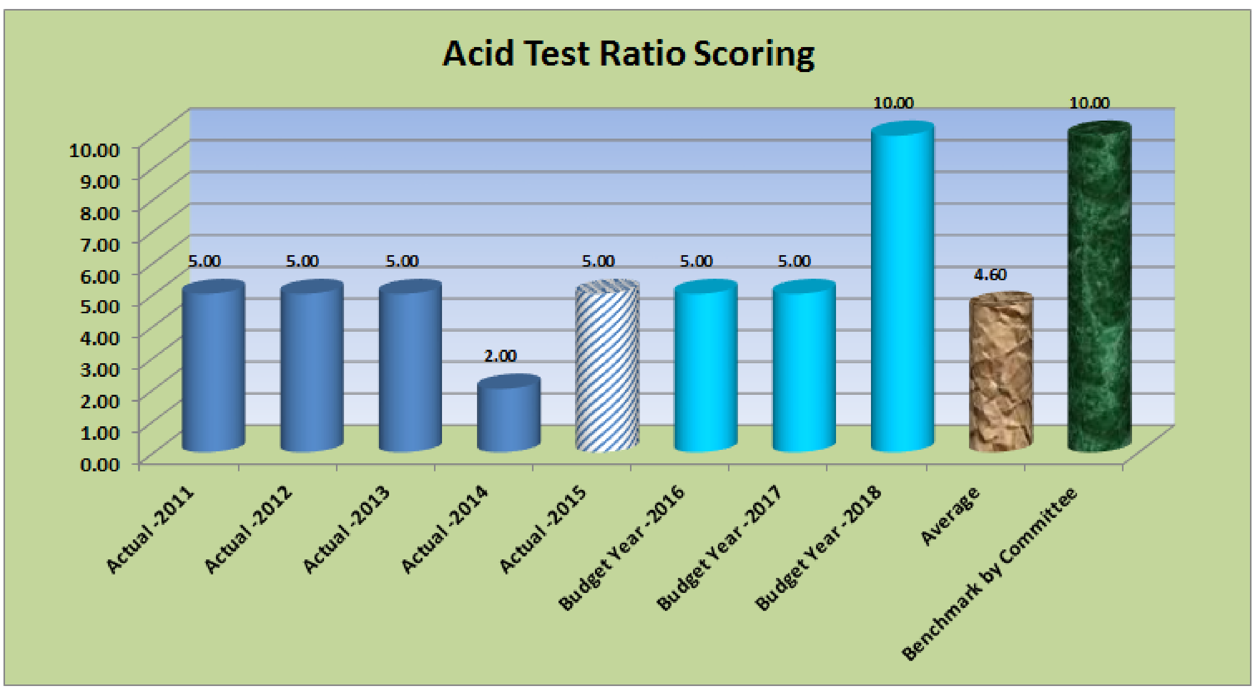
The 10 indicators, along with the proposed benchmark and weight are included in the following table:

ITEM	Benchmark	Viability Weight	Standard 1	Score 1	Standard 2	Score 2	Standard 3	Score 3	Standard 4	Score 4	Standard 5	Score 5
Acid Test Ratio	200%	10	200%	10	150%	8	100%	5	50%	2	0%	0
Payment Level (Excluding write-off of bad debts)	> 95%	15	95%	15	90%	11	85%	6	80%	3	75%	0
Cash Generated from Operations as % of Revenue	> 20%	8	20%	8	15%	6	10%	4	5%	2	0%	0
Purchase of PPE as % of Cash Generated	< 100%	8	100%	8	110%	6	120%	4	135%	2	150%	0
Cost Coverage (Excluding Unspent Grants)	4	15	4	15	4	10	3	5	2	2	1	0
Debtors Turnover (days) (Before impairment)	< 45 days	2	75	2	90	1	110	0	130	0	150	0
Longterm debt as % of Revenue	< 40%	5	40%	5	50%	4	75%	3	95%	2	100%	0
Debt servicing cost to Revenue	< 5%	8	5%	8	7.50%	6	10%	4	12.50%	2	15%	0
Short-term debt as % of Cash	< 100%	4	50%	4	70%	3	80%	2	100%	1	125%	0
Cash Funded Budget over MTREF	> R0	25	Yes	25	No	0	0	0	0	0	0	0

10.1 Acid Test Ratio

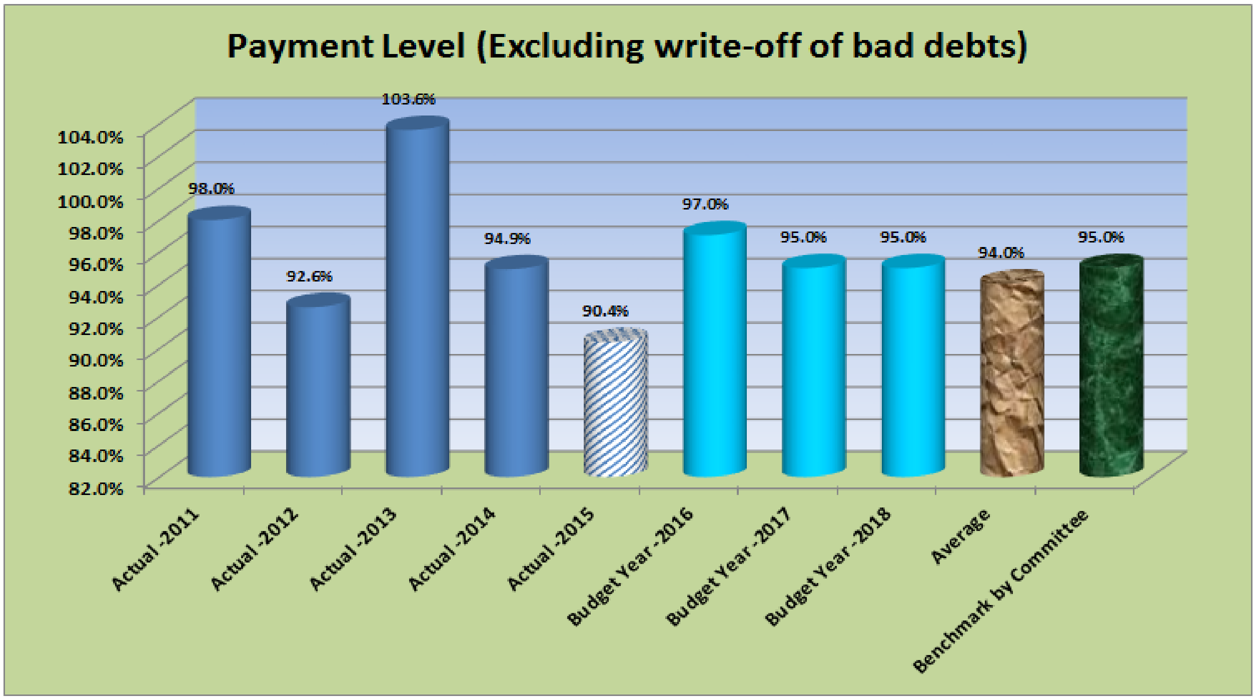
The downward trend in the Acid Test Ratio over the past few years can mainly be attributed to the decline in cash resources (Section 7) as the municipality is applying relative sound measures relating to debtors and creditors.

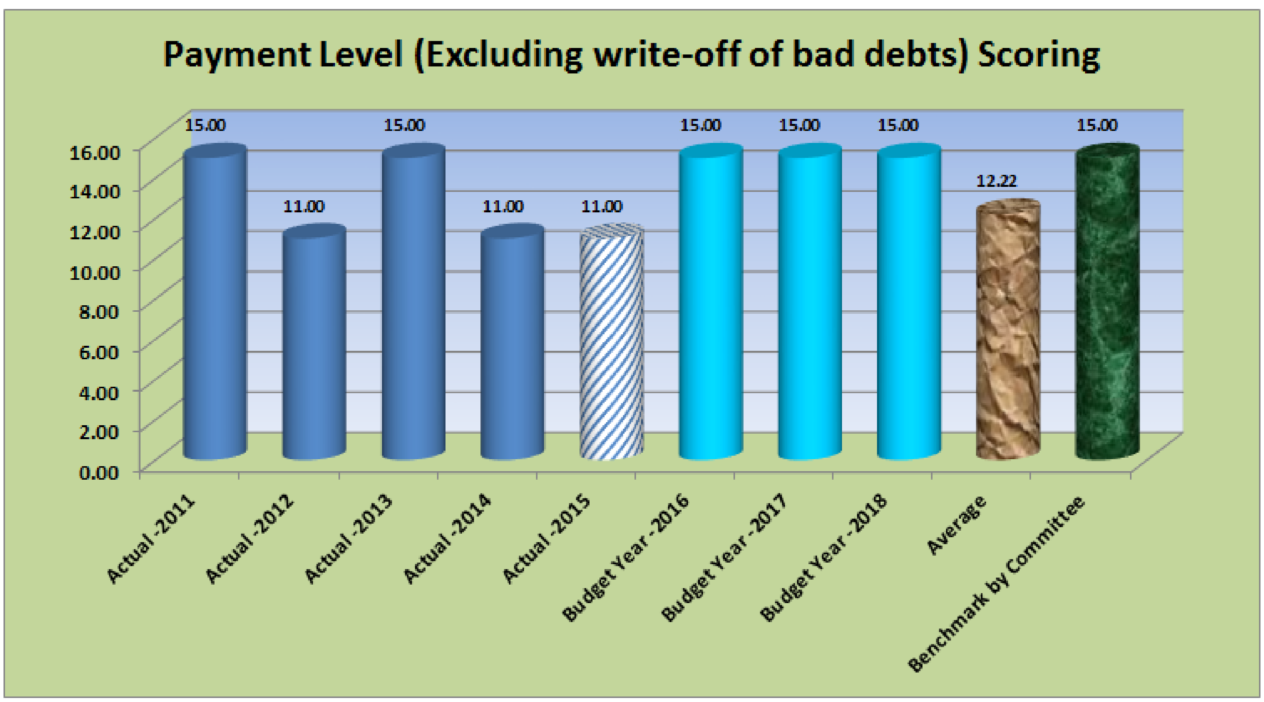




10.2 Payment Level

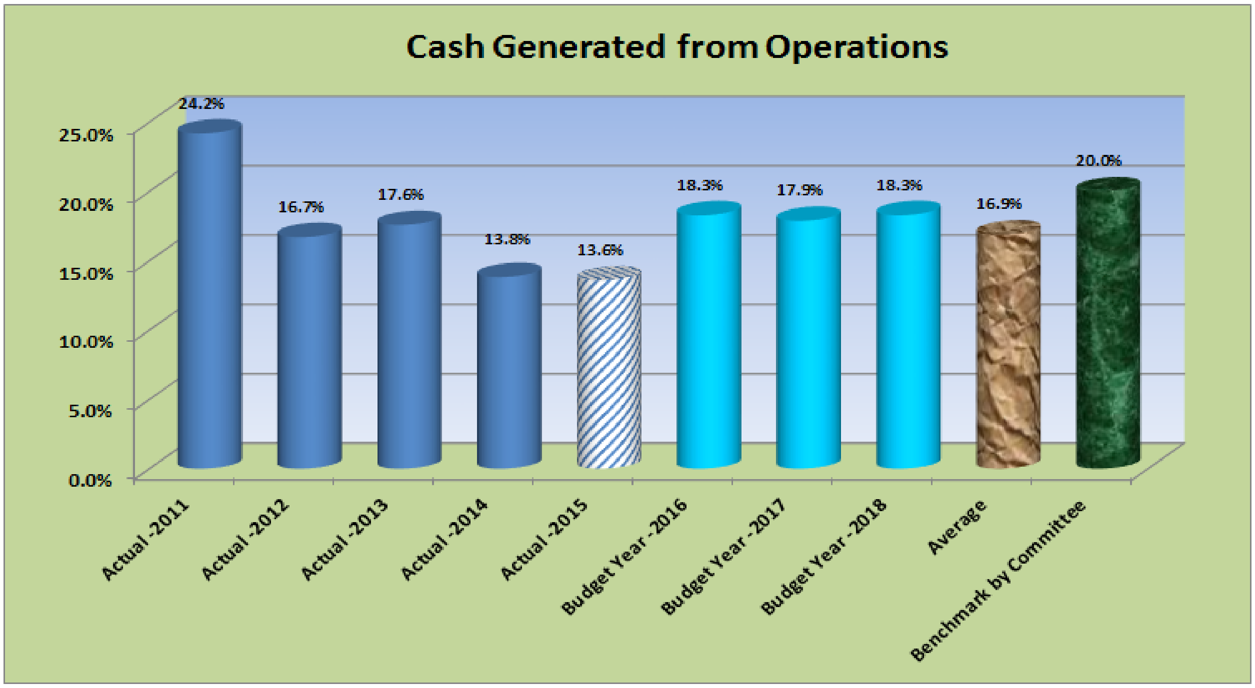
The payment level of the municipality remains consistently good throughout the entire period under review. Taking into account the fact that the municipality is applying a conservative approach to the projection of debtors, this ratio is considered sound and in line with the benchmark of 95% (Section 6). The big increase in the projected payment rate for the 2015/2016 financial year seems unrealistic and should be reviewed in the Adjustments Budget.

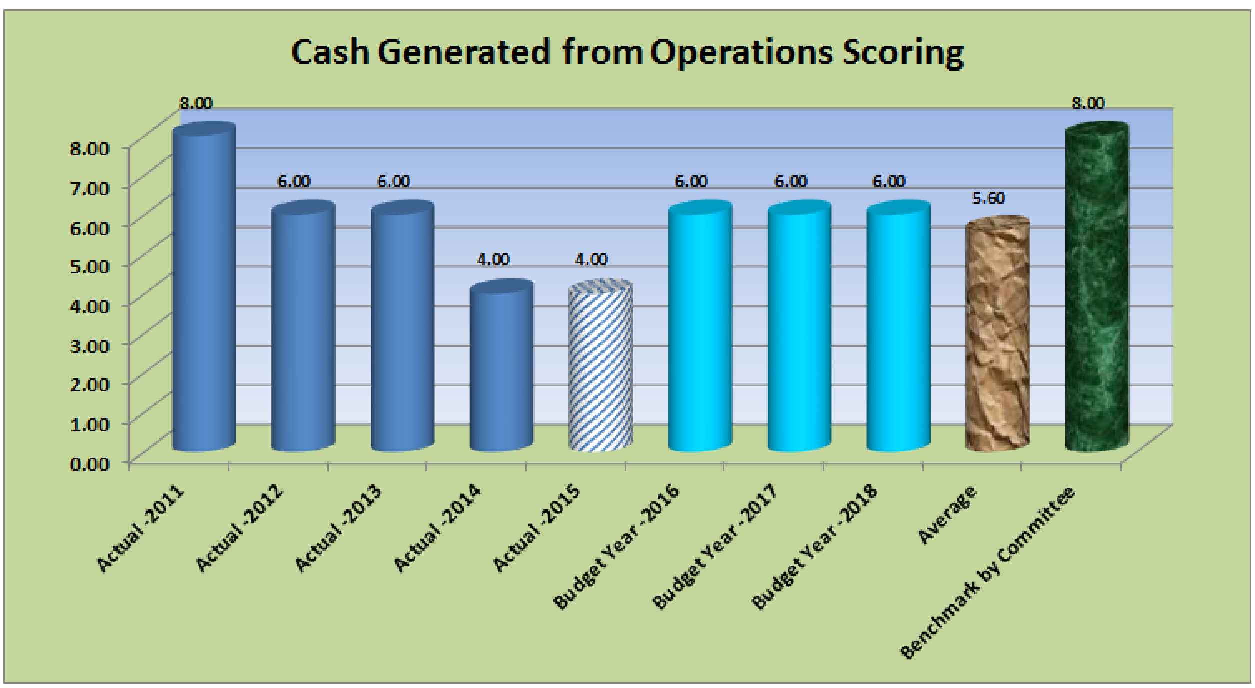




10.3 Cash Generated from operations as % of revenue

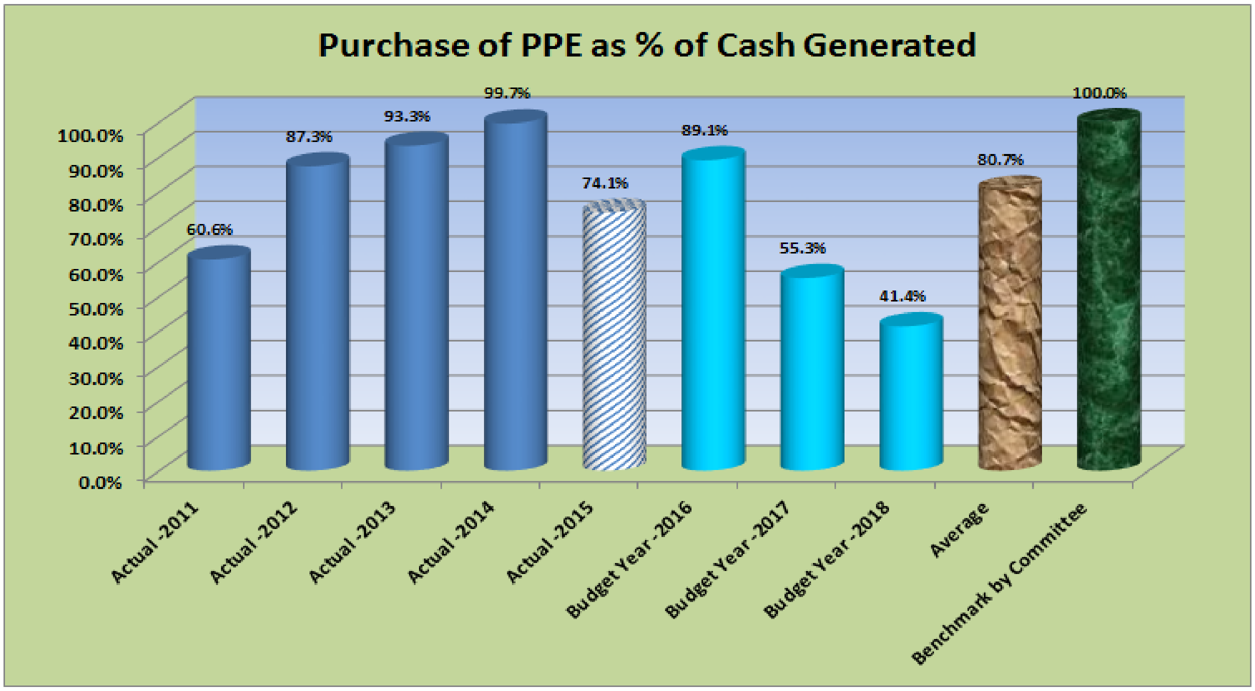
This ratio is concerning over the period from 2010/2011 to 2014/2015 but indicates an improvement over the budget periods. The ratio indicates the ability to convert revenue raised into cash. To a limited extent, the ratio is affected by the conservative approach followed when factoring payment level into the budgeted forecast for debtors. The trend is more an indication of the municipality's inability to pass on increases in major expenditure line items (i.e. Employee Related Costs, Bulk Purchases etc.) to the consumer in the form of tariff and rates increases (Section 1 and 2).

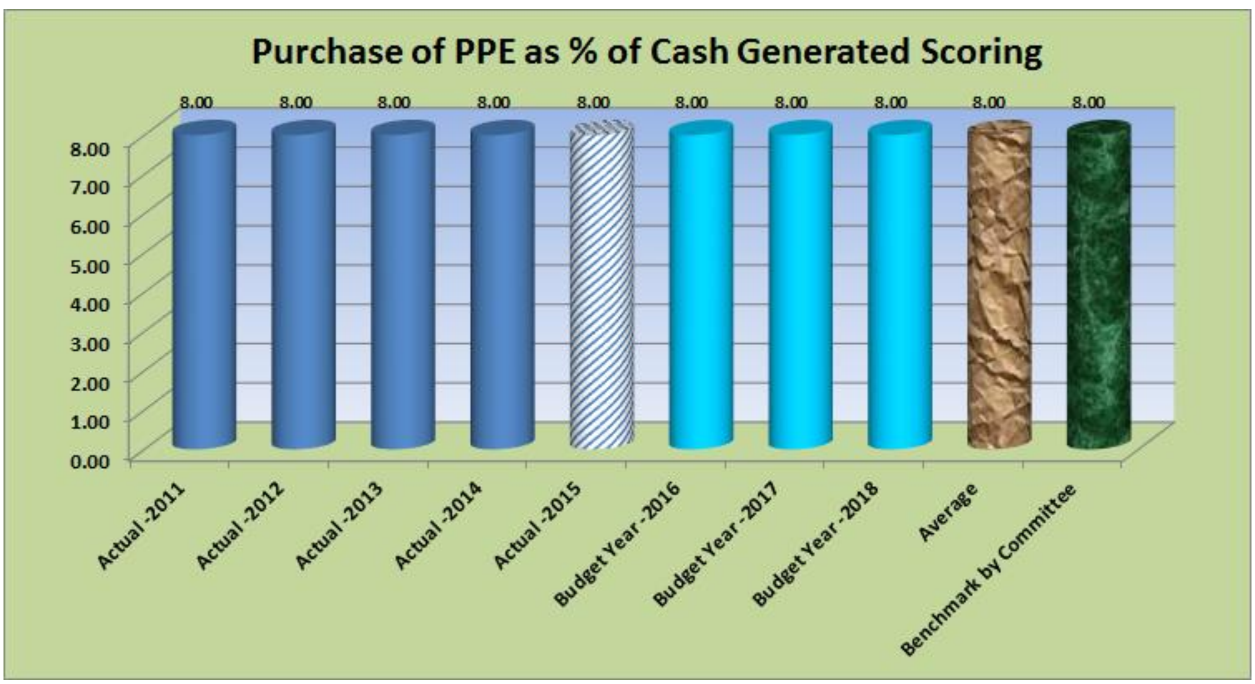




10.4 Purchase of PPE as % of Cash Generated by operations

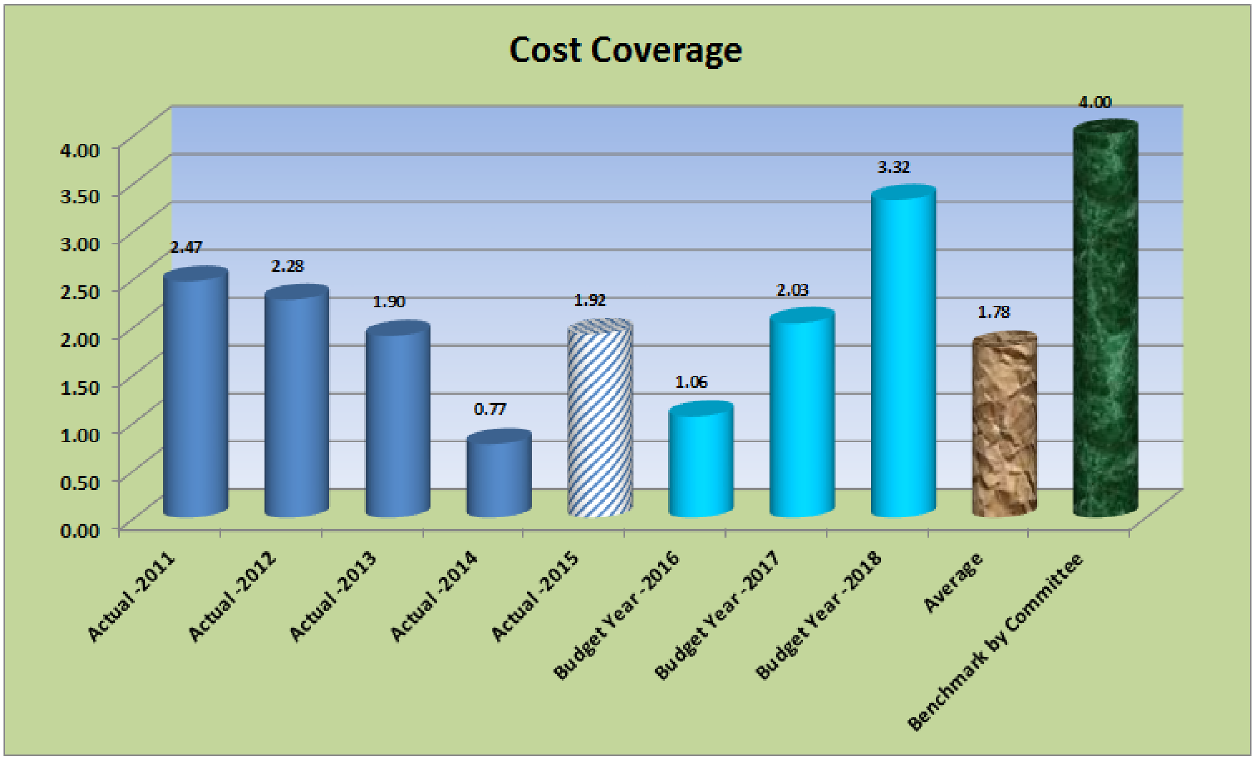
This indicator measures the ability of the municipality's operations to generated sufficient cash to fund the capital program of the municipality prior to the repayment of loans. Any ratio in excess of 100% entails that insufficient cash is generated to meet the proposed capital outflow and any repayment on loans. Any shortfall will need to be financed using accumulated cash reserves or new external financing in the form of loans. As discussed in Section 8, the capital program is placing enormous pressure on the accumulated cash reserves of the municipality.

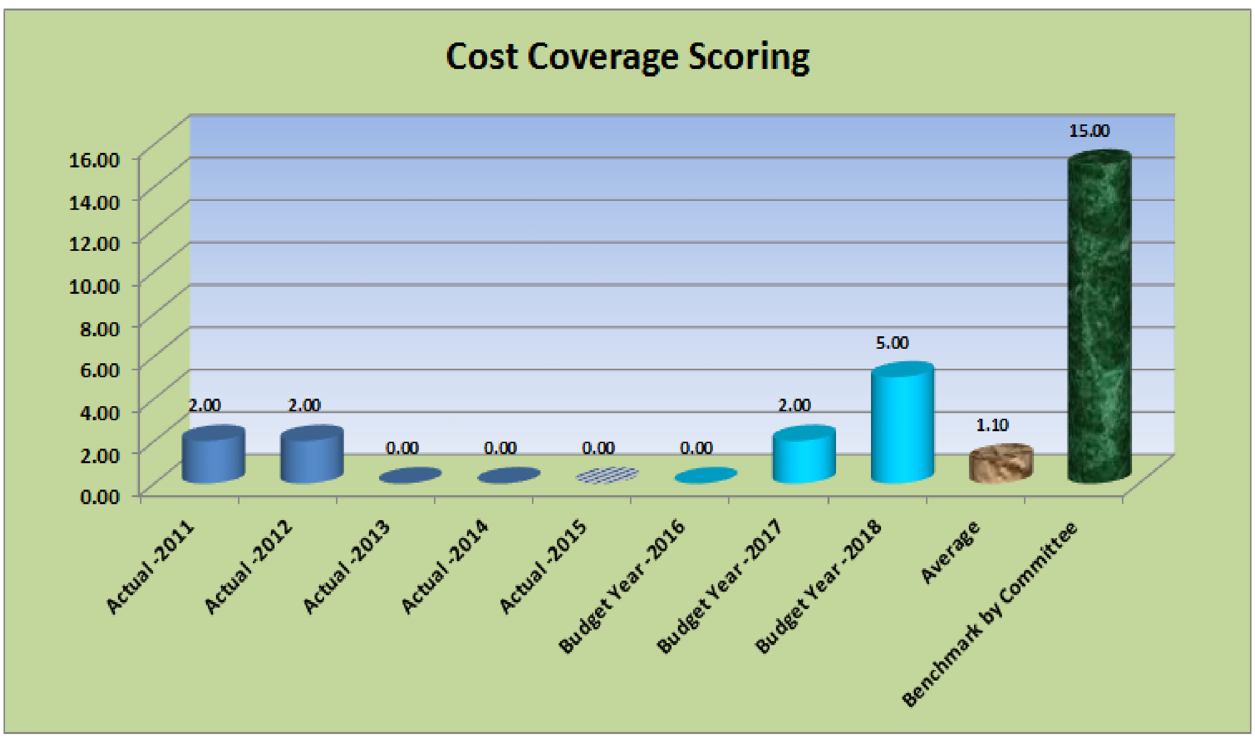




10.5 Cost Coverage

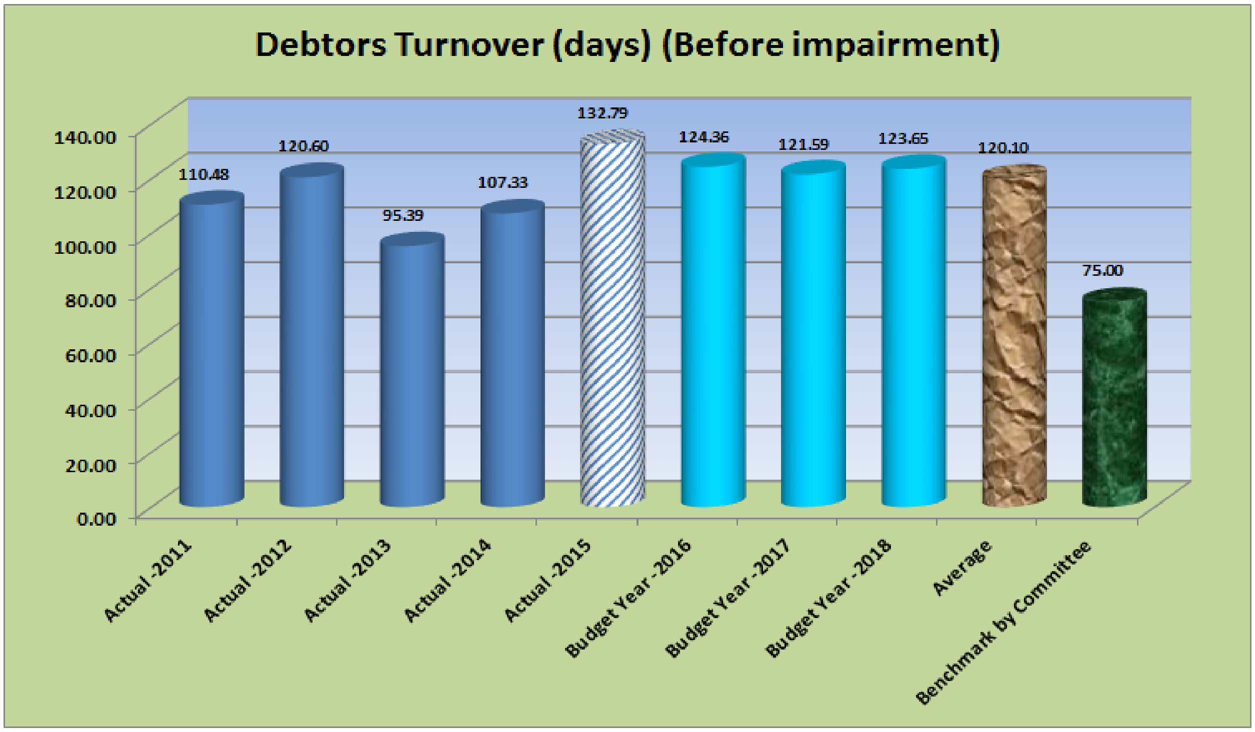
As is the case with the Acid Test Ratio in Section 10.1, this indicator is negatively affected by the declining trend in cash and cash equivalents expected since the 2010/2011 financial years and is probably the biggest indicator of the municipality's financial health.

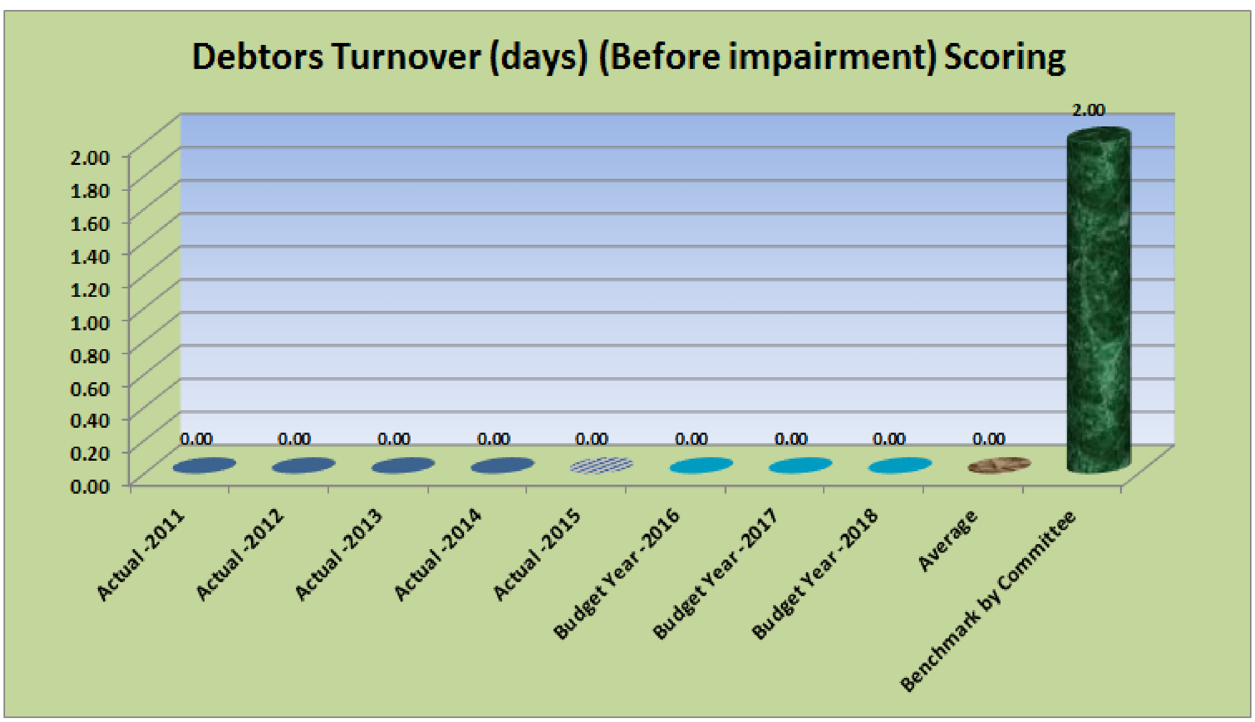




10.6 Debtor Turnover Days

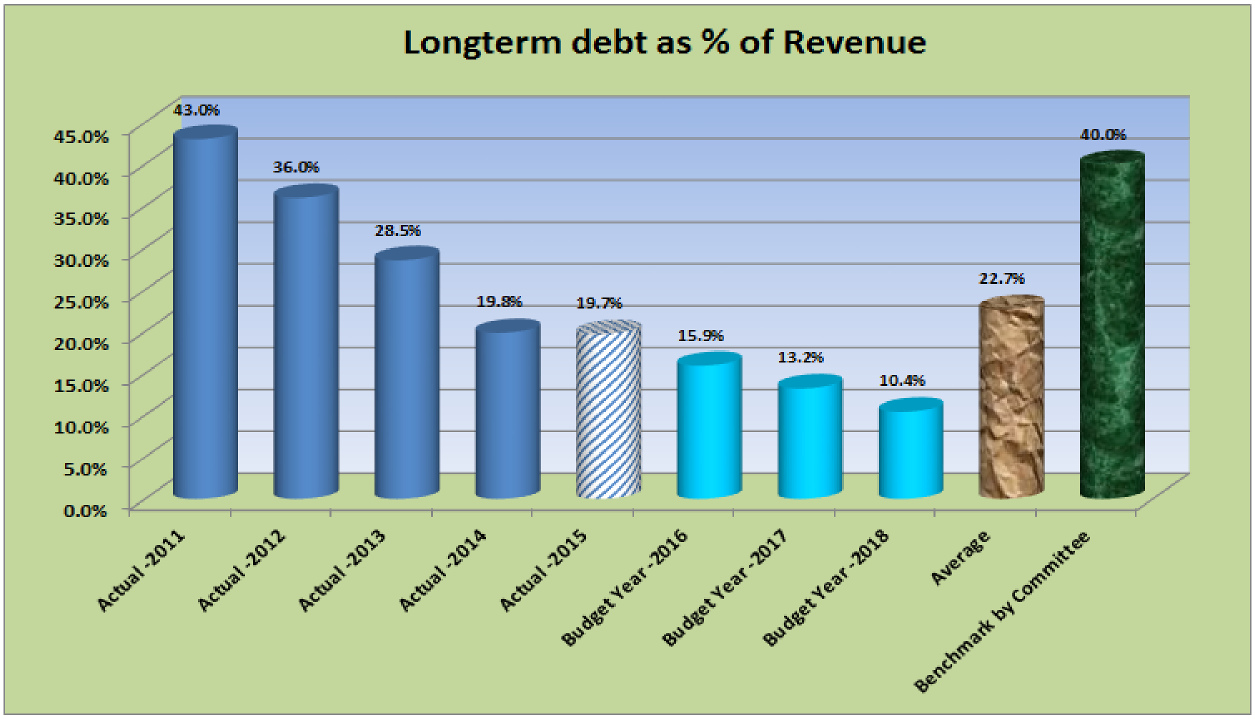
Debtors are well managed but the municipality's Write-off policy as well as the levels of indigents in the Indigent Policy should be reviewed to improve on the Debtor Turnover Days indicator and scoring. It does not assist in any way to accumulated debtors and raise interest on what can be considered definte unrecoverable debtors.





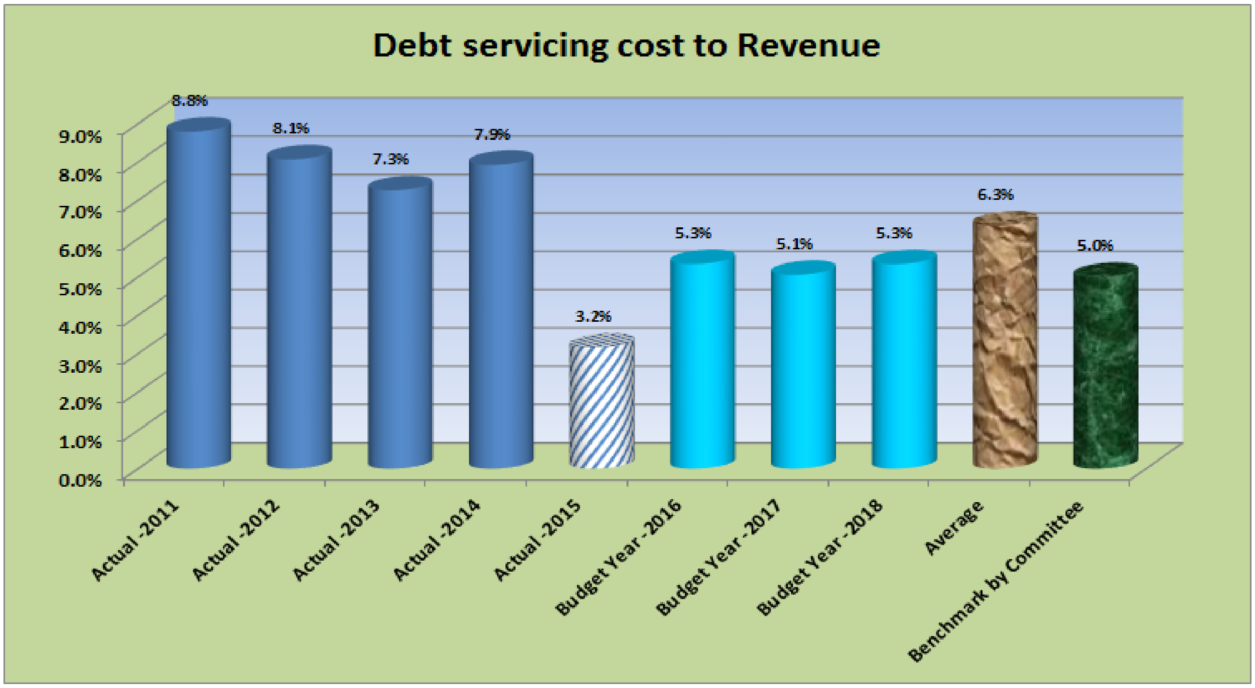
10.7 Long Term Debt as % of Revenue

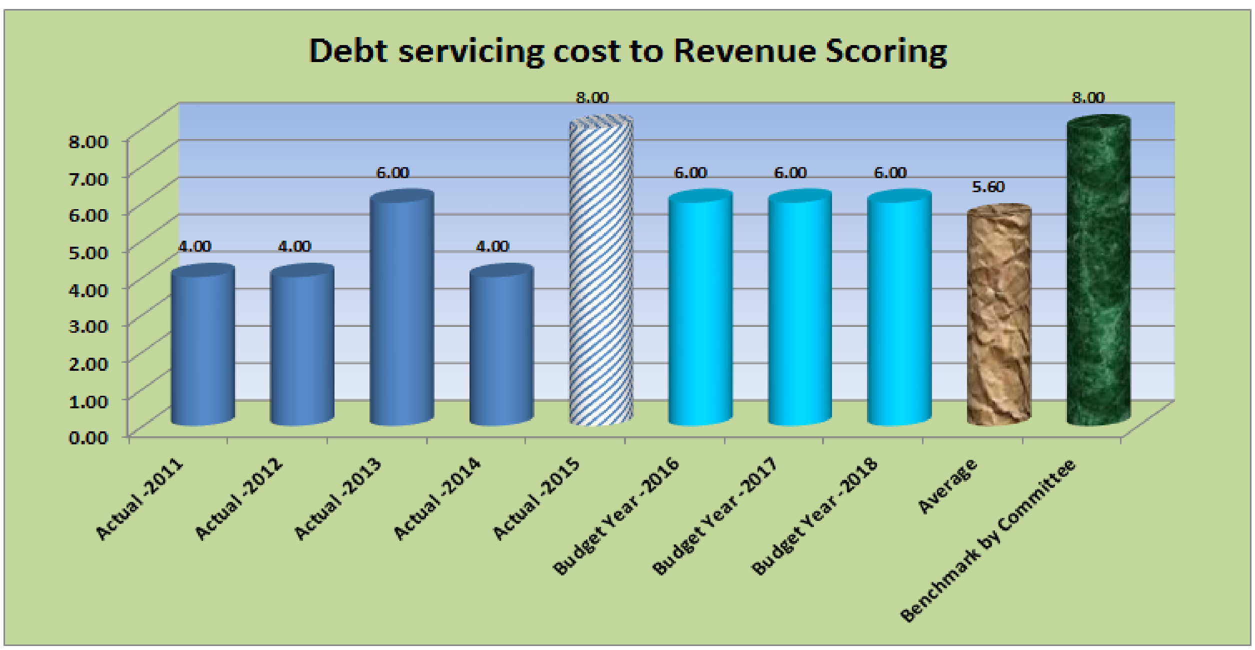
This indicator measures the debt ceiling as discussed in Section 9. Currently, the municipality is projected to be well within the limits of the ceiling. However, the municipality should be mindful of the fact that any material additional loans could increase the level of external borrowing above the set ceiling of 40%. Affordability should also be evaluated in Section 10.8 before any new debt could be added to current structure.



10.8 Debt Servicing cost to Revenue

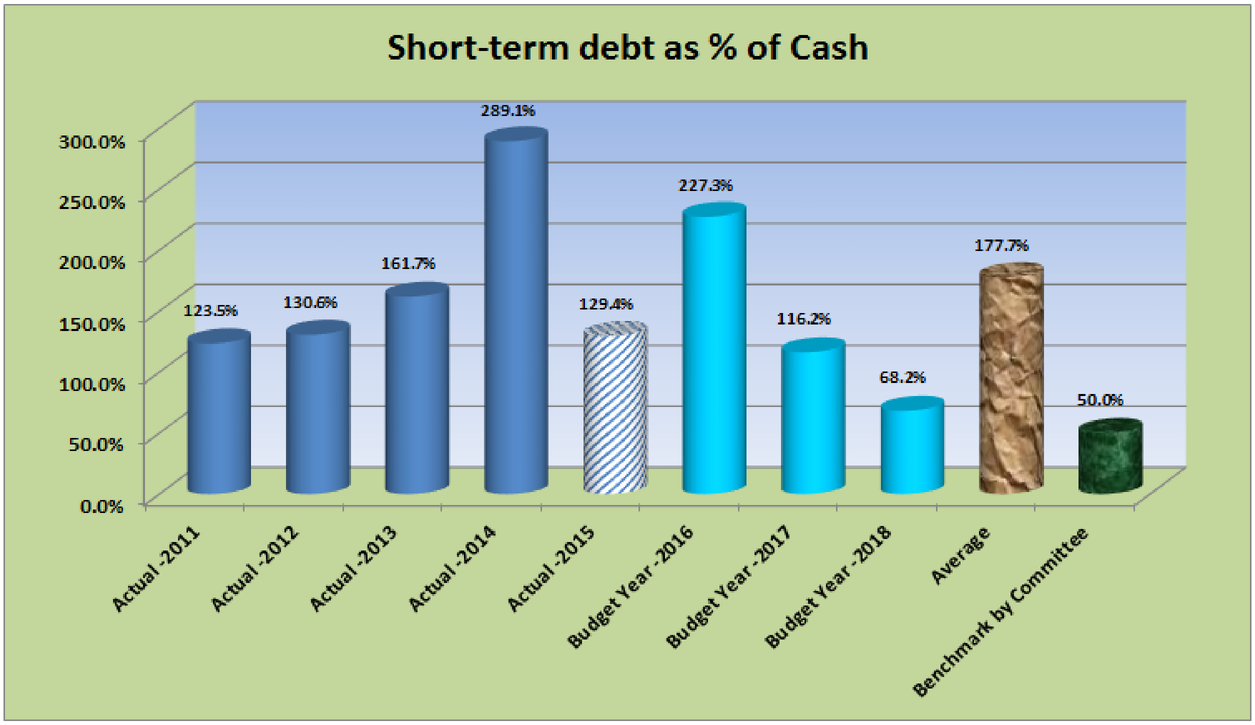
This indicator measure the portion of revenue spent on the repayment of borrowing and should be reviewed in conjunction with the debt ceiling indicator in section 10.7 as well as the projected asset useful lives. The municipality is not geared properly considering the actual low levels of loans and high levels of useful lives of assets. This indicates that the current loans are raised at interest rates higher than what is necessary or the loan periods are too short. The longest outstanding loan of the municipality is repayable within 14 years by 2029 while the infrastructure assets totaling R749 million has on average useful lives of 31- to 50 years. This clearly indicates that the loan periods does not agree to the useful life periods.

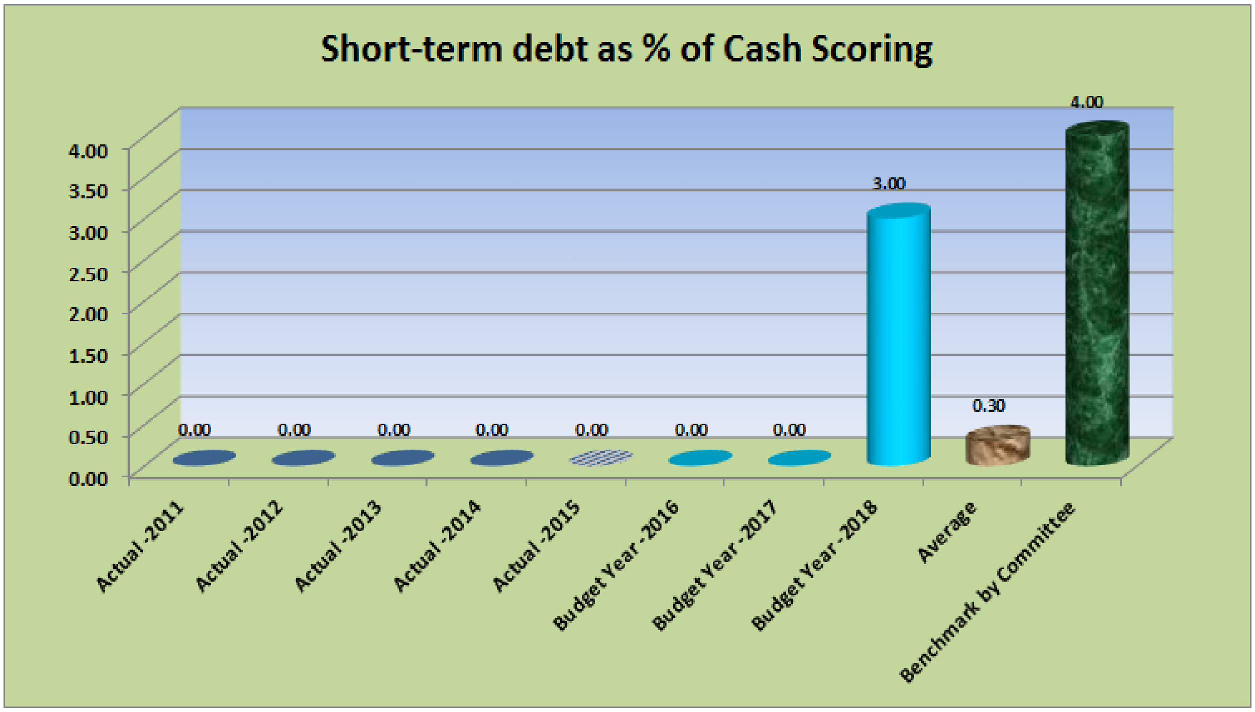




10.9 Short-term debt as % of Cash

Similar to the Asset Test Ratio (Section 10.1) and the Cost coverage (Section 10.5), this ratio is negatively affected by the declining trend in cash and cash equivalents. It is clear that the cash resources cannot sustain the short term debt.

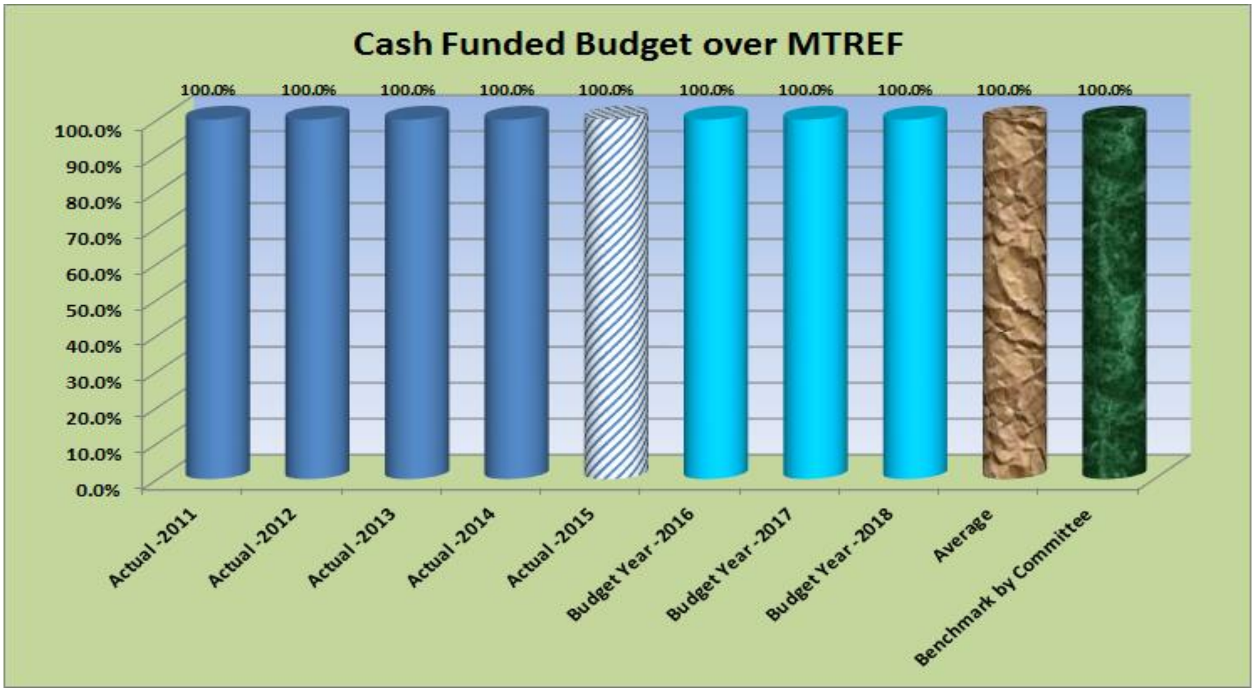


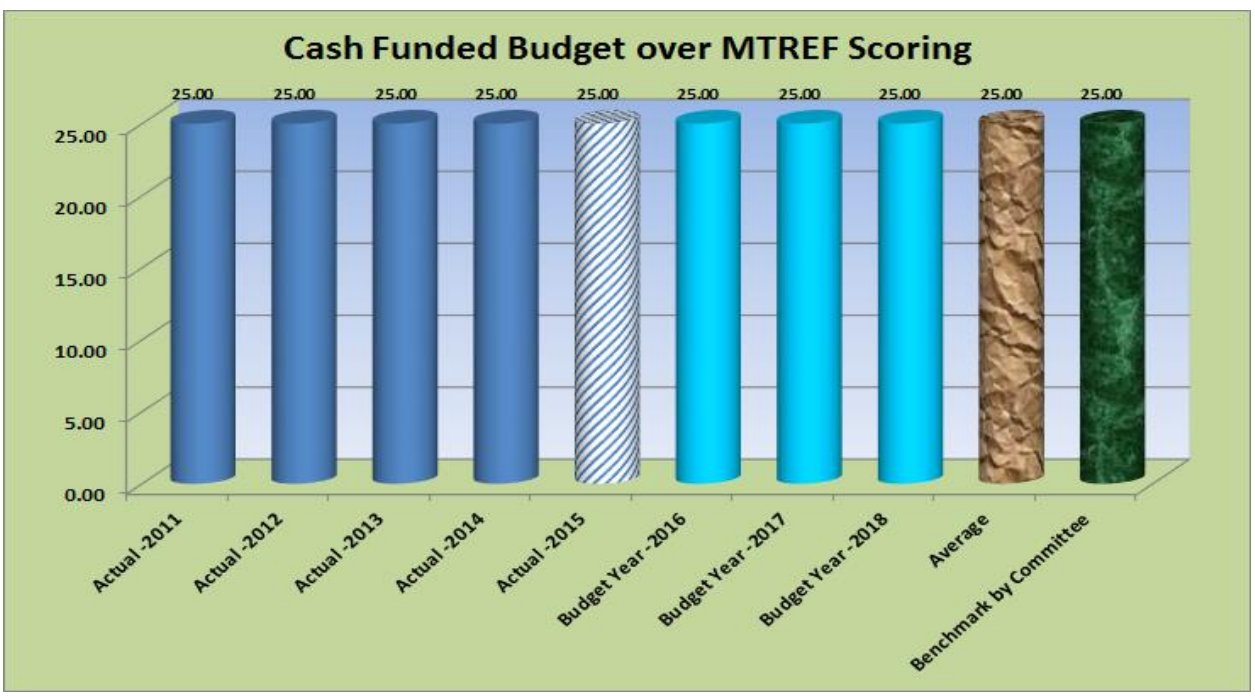


10.10 Cash Funded Budget

The "Cash funded budget" indicator is one of the most important indicators when assessing the credibility and sustainability of any budget. For this reason, the indicator contributes 25% to the total viability scoring of the municipality.

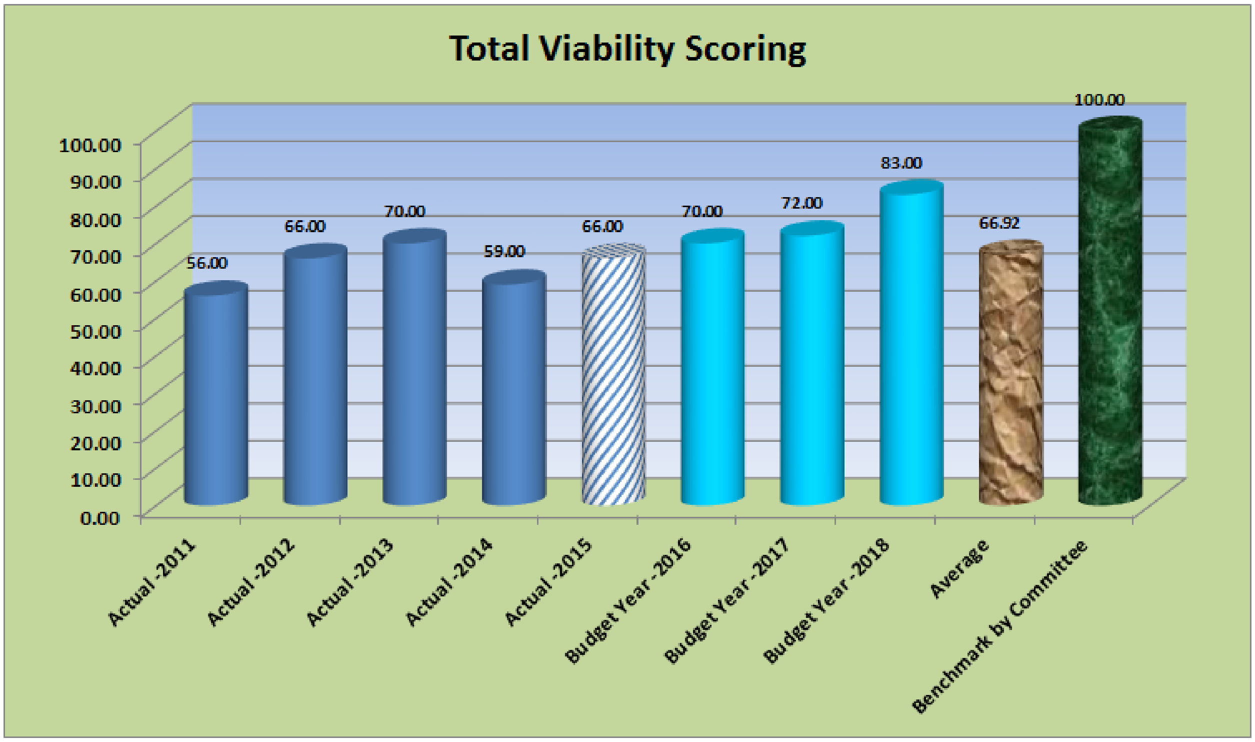
The indicator shows that the municipality will be cash funded through to 2017/2018 and thus the municipality will score the maximum points from this indicator.





10.11 Conclusion

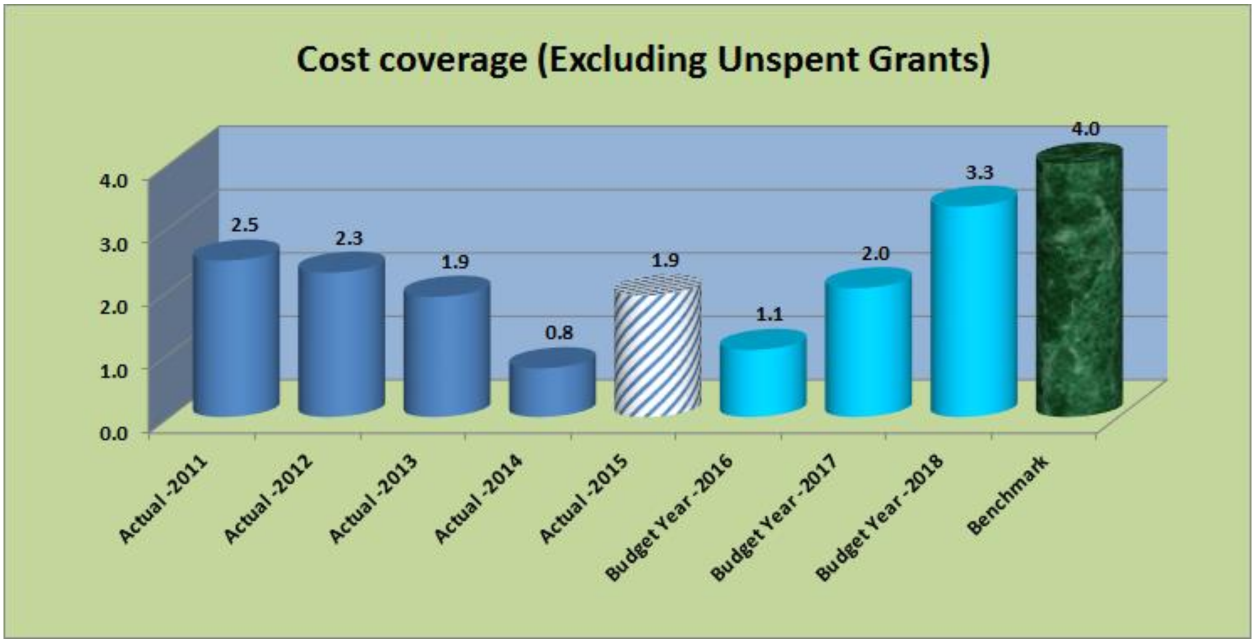
Based on the 10 indicators above, the viability scoring of the municipality is well below the benchmark of 100. This can mainly be attributed to the lack of cash reserves over the periods. The average scoring of 66 is nearly the same as the average scoring of all the municipalities for the Western Cape, with the top municipalities obtaining scores of 94 to 100 points. There is therefore room for significant improvement at Knysna and strategies should always consider improving on the scoring.

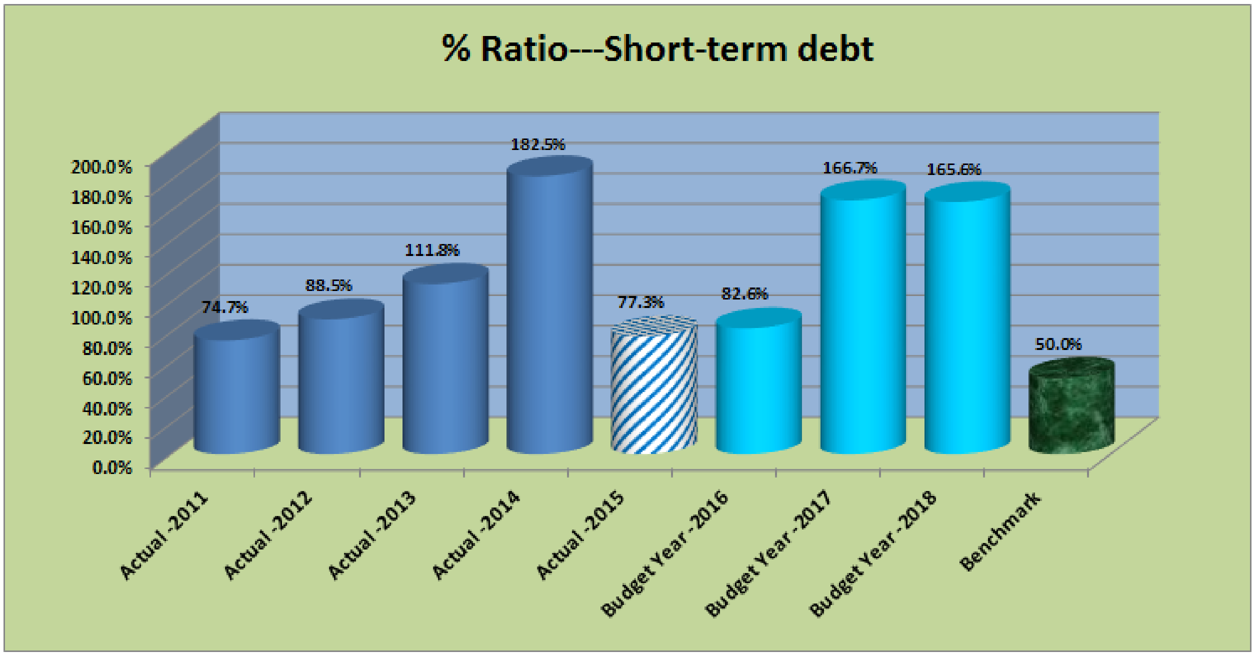


The municipality is still very much in control of their own destiny and by making good informed decisions relating to the capital and operating budget, the municipality should strive to maintain its viability scoring to a level as close as possible to the benchmark set. To achieve this objective will take time and extreme financial discipline without compromising service delivery. This scoring should be measured and presented during each budget submission and consideration.

11. SECTION 11: MODELING OF FINANCIAL PLAN AND SCENARIO SETTING

The main challenge identified in this report relates to the cash and cash equivalents position of the municipality which has a negative influence on all major indicators.





In order to ensure a financially sustainable municipality which can continue delivering quality services to the community and improve on such services, a strategy needs to be developed to ensure future budgets specifically addresses this problem. This trend should therefore be addressed to ensure that cash resources are maintained at acceptable levels that do not negatively impact on the various indicators and benchmarks.

The aim is to develop plans and strategies to ensure that the downward trend in the viability scoring (identified in Section 10) be addressed to achieve the maximum viability score of 100. These plans and strategies include the following:

1) A comprehensive capital- requirements and funding policy must be developed. Strategies should be developed to eradicate infrastructure backlogs and the current shortage in housing. (Section 2 and 3);
2) Strategies should be developed to ensure the GDP growth remains in line with the rapid growth in population numbers. The increase in the unemployment rate should also be addressed. (Section 3);
3) The dependency on property rates as a source of revenue is considered acceptable, however it should not discourage investment. A rates discount for new investments based for a period of time, based on the expected future effect on rates -and service revenue as well as employment creation, must be incorporated into the tariff structure;
4) A review of the rates tariff structure must be performed annually to determine an average rate account per household and the rates tariffs needs to take that into account (Section 4.1);
5) The declining trend in gross profit percentage derived from electricity services should be corrected by reviewing the tariffs structure and/or by employing cost cutting measures. It includes a possible reduction in distribution losses (which is already very low) or internal consumption. Based on the fact that the average percentage increase in bulk purchases is well below that of the average increase in revenue (see section 5.4 below) and considering the strict criteria set for tariff increases from NERSA, the municipality should investigate the matter to identify the areas that needs to be addressed (ie tariff structure for both consumers and bulk purchases) (Sections 4.2.1 and 5.4);
6) The electricity service charges budget for the outer years is based on an average tariff increase of 13% over the next 3 years while a somewhat optimistic average increase of 9% is budgeted for the bulk purchases of electricity. The increase for bulk purchases for 2015/2016 amounts to 3% which seems unrealistic and must be reviewed (Sections 4.2.1 and 5.4);
7) The collection rate of traffic fines in some other municipalities and specifically Overstrand and Mossel Bay, are much higher than that of Knysna Municipality. The reason for this, including the collection methods and systems used by those municipalities, must be investigated and any possible improvements implemented. Every 1% increase in the collection rate can inject approximately R3,9 million in cash over the next 5 year period (Section 4.4);

8) The municipality is projected to be well within Employee Related Costs limits of the norm throughout the projected period from 2013/2014. Future budgets should limit the expenditure to a maximum of 42% of total operating expenditure less depreciation and bulk purchases (Section 5.1);
9) In order to provide for any possible economic problems, the budget should be done conservatively for debt impairment with a buffer of 3% of the prior year actuals and current year projections to be provided for (Sections 5.2 and 6);
10) In order to reach the expected useful lives of Property Plant and Equipment including Investment Properties and keep depreciation charges low, it is necessary to ensure sufficient budget provision for repairs and maintenance. A target of 10,5% of total operating expenditure, excluding bulk purchases and depreciation, should be implemented over the next 3 tears (Section 5.3 and 8);
11) All future budgets should not include any expenditure on unfunded mandates or functions not allowed in terms of schedules 4B and 5B of the Constitution.
12) All payables (creditors) must be paid within the timeframes set by the Municipal Finance Management Act and should be calculated and maintained and not be used as a measure to fund operating expenditure (Section 6);
13) Future budgets should address the negative trend of current liabilities to available cash and a strategy should be implemented to reduce the indicator to a benchmark of 0.50 (Section 6);
14) Credit control must at all times be strictly enforces to maintain and possibly improve of the payment rate of 95% (Section 6 and 10.2);
15) The Indigent- and Write-off policies must be reviewed to reduce the debtors' turnover days to a benchmark of 75. This may include increasing the indigent income levels (Section 6 and 10.6);
16) The municipality needs to improve on its cash and cash equivalents position and future budgets must address this issue. A Cost coverage ratio of 4 must be targeted and this must be implemented over the next 3 year MTREF period (Sections 7 and 8);
17) Property, Plant and Equipment funding must be prioritized and may not be more than cash generated from operations plus loans to be raised and external capital grants (Section 8).
18) Capital grants must firstly be evaluated against the future maintenance costs and the effect on the operating budget and tariffs before accepting such grants.
19) Priorities should be set for capital expenditure according to the following:
    a. Profit making and breakeven while improving service delivery – Automatic;
    b. Life endangerment – Automatic;
    c. Others –according to a priority scale and affordability.
20) Ensure sufficient allocations are made to the renewal/replacement of assets at levels to be determined by the municipality. The renewal/replacement program employed by the municipality should lengthen the average useful life of assets (Section 8);
21) Future budgets must provide for cash surpluses in order to build sufficient cash resources to cash-back provisions. A period of 7 years should be targeted to use to implement this objective (Section 9);

22) Additional loans can be raised for about R95 million at current levels, but should be phased in over a period of time (Section 10.7). Loans raised should be consistent with the expected useful lives of assets in order to ensure that the users of the assets pay for the assets and reduce debt service costs (Section 10.8);

23) The total viability scoring based on the model developed by the Western Cape Provincial Treasury should be used as a tool to measure progress with the implementation of this plan. The target should be to achieve a scoring of at least 90% within the next 5 years and every budget in future must be accompanied by the scoring.

KNYSNA MUNICIPALITY

ACTING POLICY

HUMAN RESOURCES POLICES AND PROCEDURES MANUAL

1. OBJECTIVE

The objective of the policy is to ensure that activities of the Municipality continue while critical positions are not permanently occupied.

2. DEFINITION

The Acting Policy regulates the temporary appointment of employees of the Municipality in higher positions in a capacity whether or not it is in addition to their own duties.

3. RELEVANT LEGISLATION

This policy is based on the Main Collective Agreement of the South African Local Government Bargaining Council (SALGBC) and the Conditions of Service of the Western Cape Division of the SALGBC.

4. GUIDING PRINCIPLES

An employee of Kenyans Municipality will be acting when:

4.1 S/he performs all the duties of a higher position, as per the approved organogram, other Than his/her own and in addition to his /her own duties.

4.2 An agreement between the Municipality and the employee appointed in the acting position Will be drawn up, for an acting period, which may not exceed three (3) months In duration, without the agreement being reviewed.

4.3 The agreement in 4.2 above, may be extended for a further period, but this shall only be done if no suitable permanent appointment is possible, not exceeding the period in 4.4 below.

4.4 The acting period in 4.2 and 4.3 may not exceed a maximum period of 9 (nine) consecutive working months, where after the post must be advertised and filled on a competitive basis. This is only applicable to acting as from the date of the commencement of SALGA agreement, dated 1 April 2016.

4.5 A staff member appointed to act in a vacant position must comply with the minimum qualifications, relevant experience, and potential to perform in the position to which s/he is appoint-

ed in an acting capacity.4.6Employment Equity will be one of the requirements to be taken into consideration when appointing people to act in higher positions.

4.7 The employer will not unreasonably stop or interrupt the acting period of the employee resulting in the non-payment of an acting allowance.

4.8 The employer will not unreasonably stop or interrupt the acting period of the employee resulting in the non-payment of an acting allowance.

4.9 An employee will not be paid an acting allowance whilst s/he is on any form of leave or any other absence during the acting period.

4.10 If an employee has acted for a continuous period of three (3) months or longer, s/he will qualify for an acting allowance while on any form of paid leave.

4.11 Council may in consultation with the Municipal Manager resolve that an employee should act in a section 56 and 57 position.

: 4.12 that an employee may not be allowed to act more than one occupational level higher than the occupational level of the acting incumbent, unless critical operational requirements necessitates.

4.13 An employee may not act against more than one position at a time.

5. REMUNERATION

A staff member who is appointed to a vacant position in an acting capacity shall be remunerated on the following basis:

5.1 The acting allowance will be the amount which is the difference between the employees current notch and the commencing notch of the scale of the acting position.

5.2 Acting allowance will be paid to an employee who has acted in a higher position for a period of at least 10 consecutive working days including public holidays and compulsory closing of office during the festive season.

5.3 In the case of an employee already on a notch higher than the first notch of the acting position, an acting allowance amounting to five percent of his pensionable salary will be paid.

5.4 The acting allowance will be paid for the duration of the agreed period.

5.5 The acting allowance is non-pensionable,

5.6 The allowance, and after statutory deductions, will be paid with the employee's salary in the month immediately following the month the acting was performed

5.7 The acting allowance of Section 56 and 57 will be the difference between the pensionable salary of the acting employee and 60% of the remuneration package of the post in which the employee is acting.

5.8 The acting allowance of a Section 56 when acting in the post of Section 57 appointment, will be

The difference between 60% of the remuneration package of the acting employee and 60% of The remuneration package of the Section 57 post in which the employee is acting.

6. PROCEDURE

6.1 The requesting line department must submit a written request signed by the relevant Superior, Manager of the department and Director to the HR department, prior to the acting period.

6.2 The HR department will scrutinize the request against the criteria of length of acting, salary Scales and notches as well as existing position on the organogram.

6.3 If the request complies with the criteria, the HR department will generate a letter for approval Of the acting to the MM, to whom approval of the acting is delegated to in terms of the deluge-Tons register.

6.4 If the request does not comply with the criteria, it is returned to the line department.

6.5 After approval by the MM, the approved request is submitted to the relevant incumbent and a Copy to the Payroll Department for processing

6.6 Acting appointments in section 56 and 57 positions are done by Council via Council resolution, followed by a letter to the incumbent and the Payroll section.

6.7 The employer shall not unreasonably stop or interrupt the acting period of the employee resulting in the non-payment of an acting allowance without written motivation approved by the Municipal Manager.

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KNYSNA MUNICIPALITY
OVERTIME POLICY
HUMAN RESOURCES POLICIES AND PROCEDURES MANUAL

1 INTRODUCTION

Employees of Knysna Municipality work for 40 hours in a normal working week. Normal working hours start from Mondays to Fridays at 7h30 until 16h30. Some employees of Knysna Municipality are required to work shifts, on weekends and on public holidays.

Employees may from time to time be obligated to work outside their normal working hours.

2. LEGISLATION

Overtime is generally regulated by the Basic Conditions of Employment Act (BCEA-section 10) and the SALGA Collective Agreement and these provisions should govern overtime payment thereof.

3. DEFINITIONS

Overtime means the time that the employee works during a day or week in excess of the employee's ordinary hours of work.

Emergency Overtime means work that must be done without delay because of circumstances for which the employer could not reasonably have expected to make provision and which cannot be performed by employees during their ordinary hours of work. Emergency work excludes the performance of routine maintenance work outside normal working hours. It is however the prerogative of the Employer to decide if any overtime not included in this definition qualifies as emergency overtime.

4. GUIDING PRINCIPLES

The working of overtime should be subject to very strict control measures and therefore only staff in a Supervisory capacity who have been authorized by his\her Director, shall be entitled to approve the performance of overtime by subordinates.

A monthly report on all overtime worked and the expenditure involved should be submitted to the Section 80 Committee for Finance and Government.

An employee will be entitled to paid overtime when he\she is requested by written instruction by the Municipal Manager or the employee's Superior who is duly authorized to do so, to perform duties outside his normal working hours.

Employees on standby in terms of clause 10 of the Collective Agreement on Conditions of Service for

The Western Cape Division of the SALGBC (South African Local Government Bargaining Council), shall re ceive overtime payment.

5. PURPOSE

The purpose of this policy is to regulate overtime worked by employees outside their normal working hours.

6. PROCEDURE FOR REMUNERATIVE OVERTIME

6.1 Working overtime should be an exception rather than a rule, Supervisors must ensure that Overtime work is minimised.

6.2 Overtime shall be paid or time-of granted to all employees who qualify in terms of the BCEA.

6.3. Employees earning more than the overtime earnings threshold provided for in BCEA as amended and as determined from time to time, will be provided time off for overtime worked calculated on straight time basis (1 hour overtime worked = 1 hour time off), subject to the provisions of this policy. The approving authority and the employee involved must agree before hand on time-off for overtime worked.

6.4 In terms of Clause 10(1) (b) of the Basic Conditions of Employment Act, an employer may not require or permit an employee to:

(a) To work overtime except in accordance with an agreement
(b) To work more than:
  (i) Three hours' overtime a day; or
  (ii)Ten hours' overtime a week.

6.6 Supervisors must authorise overtime work only if the work is urgent and cannot be done during normal working hours.

6.7 The number of overtime hours required for such a task shall be agreed upon between the Supervisor and the employee, and shall not exceed the limits stipulated in Clause 6.4.

6.8 Where possible, work to be done should be stipulated beforehand indicating what needs to be done and for how long.

6.9 Attendance registers are signed by employees working overtime at the starting and finishing time and controlled by the Supervisor in charge.

6.10 Records of all overtime duties are kept.

6.11 Sufficient funds must be available to finance overtime pay.

6.12 It is the responsibility of Supervisors to ensure that overtime claimed has:

i. actually been performed;
ii. was necessary; and
iii. was performed in the most cost effective manner.

All overtime work should as far as possible be performed at the employees normal place of work.

If the above limits are exceeded the Supervisor shall be held liable.

Supervisors should look at innovative ways of reducing overtime, for example, using shifts and time off for overtime worked, this must be agreed with employee.

7. OVERTIME COMPENSATION

7.1 Overtime shall be paid for work done beyond 40 hours per week, provided that provisions in 6.4 above have been met.

7.2 Hourly rates as per the Basic Conditions of Employment Act are as follows:

7.2.1 Overtime worked beyond normal working hours (i.e. 7h30 to 16h30) on a normal working day: one and a half (1,5) times an employee's hourly salary.

7.2.2 Saturdays: one and a half (1.5) times an employee's hourly salary.

7.3 Sundays:

An employer must pay an employee who works on a Sunday at double the employees' salary for every hour worked, unless the employee ordinarily works on a Sunday, in which case, the employer must pay the employee at 1, 5 times the employees' salary for each hour worked.

7.4 Public holidays

An employer may not require an employee to work on a public holiday, except in accordance with an agreement. If a public holiday falls on a day on which the employee would ordinarily work, an employer must pay:

a) An employee who does not work on the public holiday, at least the wage that the employee would ordinarily have received for work on that day
b) An employee who does work on the public holiday :
   i) at least double the amount referred to in paragraph (a); or
   ii) if it is greater, the amount referred to in paragraph (a) plus the amount earned by the employee for the time worked on that day.
c) If an employee works on a public holiday on which the employee would not ordinarily work, the employer must pay the employee an amount equal to:
   i) The employee's ordinary daily wage; plus
   ii) The amount earned by the employee for the work performed that day, whether calculated by reference to time worked or any other method.

The amount due, after statutory deductions, will be paid with the employee's salary in the month immediately following the month the overtime is worked.

7.5 The Municipality and the employee(s) concerned may agree that an employee be compensated with time off, as set out in section 10(3) (a) and (b) of the BCEA. Such time off must be taken within one month after the overtime was worked. If, for operational reasons, the employee is not able to take the time off, the employer will pay the overtime according to the rates mentioned above.

8. NIGHT WORK

8.1 For the purposes of this policy night work means work performed after 18h00 and before 6h00

the next day.

8.2 An employer may only require or permit an employee to perform night work if so agreed and if:

- An employee is compensated by the payment of an allowance, which may be a shift allowance, as per the Bargaining Council Agreement, or by a reduction of working hours.
- Transport is available between the employee's place of work and home at the commencement and conclusion of employees shift.

8.3 An employer who requires an employee to perform work on a regular basis after 23h00 and before 6h00 the next day must:

(a) Inform the employee in writing or orally if the employee cannot read in a language the employee understands

- of any safety and health hazards associated with the work that the employee is required to perform, and
- of the employees right to undergo medical examination in terms of paragraph (b)

(b) at the request of the employee allow the employee to undergo medical examination, for the account of the employer, concerning those hazards:

- before the employee starts, or within a reasonable period of the employee starting such work and
- at the appropriate intervals while the employee continues to perform such work.

(c) transfer the employee to a suitable day work within a reasonable time if:

- the employee suffers from a health condition associated with performance of night work, and
- it is practicable for the employer to do so

(d) An employee works on a regular basis if s/he works for a period of longer than one hour after 23h00 at least five times a months or 50 times per year.

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KNYSNA MUNICIPALITY

STANDBY POLICY

HUMAN RESOURCES POLICES AND PROCEDURES MANUAL

1. STANDBY DUTY

1.1 An employee is entitled to a standby allowance when he is requested by written instruction by the Municipal Manager of his Superior to be available for the performance of duty outside his normal working hours.

1.2 The standby allowance shall be payable on the following conditions only:

1.2.1 When the employee is required to be available for duty for a period of at least eight hours during a 24 hour period (based on a 40-hour working week) after normal working hours.

1.2.2 Standby shall not exceed a calendar week provided that an employee shall not be on standby for more than two weeks per month, save where operational requirements dictate otherwise.

1.3 Every Municipality shall determine a delegation policy for the purposes of Clause 1.1. Where no such policy is in place, any written instruction by a Supervisor to perform standby duty shall qualify as an instruction for the purpose of clause 1.1. Such policy must be communicated to all employees.

1.4 Standby is calculated:

1.4.1 From the normal closing time of the employee's place of work; or

1.4.2 on a day on which the employee is not normally required to work.

1.5 The standby allowance shall not affect or be affected by any remuneration for overtime worked by the employee during the period of standby duty.

1.6 The standby allowance shall be equal to 15 per cent of the normal hourly rate based on the pensionable salary formula:

1.6.1 Pensionable annual salary ÷ number of working days (calendar days – public holidays – weekends) ÷ 8 x 15% = hourly standby allowance; and

1.6.2 Shall be paid in a proportionate manner according to the actual number of hours on standby.

Note: The formula in clause 1.6.1 above could also be expressed as

[15/100 x (annual pensionable salary ÷ 249 ÷ 8)] x actual number of hours on standby.

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KNYSNA MUNICIPALITY

TRAVEL & SUBSISTENCE POLICY

HUMAN RESOURCES POLICES AND PROCEDURES MANUAL

1. **PURPOSE**

1.1 It is essential for representatives of the Municipality to from time to time travel to other towns and cities in order to establish and maintain links and relationships with other Municipalities, Government bodies, and other parties, institutions and organizations operating in or interacting with the sphere of Local Government.

1.2 It is also important for representatives of the Municipality to broaden their knowledge and understanding of and compare local experiences in Local Government transformation, innovation and changes in the rest of the country, and this can only be done effectively through the medium of personal contact with a wide range of Local Government stakeholders.

1.3 The purpose of this policy is to regulate how travelling and subsistence costs are paid to staff members and Councillors required to undertake approved Council business which involves incurring expenses for travel, lodging, meals and other costs for attending conferences, meetings, seminars, training and conducting other Council business.

1.4 This policy sets out the basis for the payment of a subsistence and travel allowance for the purposes of such official travelling.

2. DEFINITIONS

2.1 For the purposes of a subsistence allowance, a representative shall mean:

2.1.1 Executive Mayor;

2.1.2 Deputy Executive Mayor;

2.1.3 Speaker;

2.1.4 Members of the Mayoral Committee;

2.1.5 other Councillors specifically authorised to represent the municipality on a particular occasion;

2.1.6 Municipal Manager;

2.1.7 Directors;

2.1.8 Any other official specifically authorised to represent the municipality on a particular occasion;

2.1.9 Any official who is a member of a recognized professional institution and is granted permission to attend meetings and conferences of such institution;

2.1.10 Any other person who is granted permission to attend meetings, conferences by the Municipal Manager;

2.1.11 A subsistence and travel allowance is an amount of money paid by the municipality to a representative;

2.1.12 Government rates: rates charged by Hotels for government institutions which are lower than the normal rates charged.

2.2 For the purposes of this policy, domestic travel shall mean travel within South Africa; and

2.3 International travel shall mean travel to any country other than South Africa.

2.4 Normal workplace means the town where the employee is stationed\required to perform his or her duties.

2.5 A day is calculated as a single 24 hour period, which commences at time of departure from the normal workplace.

3. ADVANCE (APPLICABLE TO INTERNATIONAL TRIPS ONLY)

An advance is typically an amount of money that is granted by an employer to an employee in circumstances where the employer is certain that the employee will incur business related expenses on behalf of the employer, and where the employee is obliged to prove or account for the business related expenditure to the employer. The amount of the advance is based on the business related expenditure. Where the actual expenses incurred are less than the advance granted, the employer recovers the difference from the employee, and vice versa.

4. POLICY

4.1 Responsibilities of representatives who travel on business of the Municipality:

4.1.1 Every representative who travels on the business of the Municipality must comply with this policy in letter and in spirit;

4.1.2 Representatives who travel on the business of the Municipality must appreciate, at all times, that they are ambassadors for the Municipality, that their action, conduct and statements must be in the best interests of the Municipality, and that they must comply with any specific mandates they have been given;

4.1.3 Consistent with the Municipality's performance monitoring and evaluation objectives, the Municipal Manager will ensure that a database of all representatives and official travelling is kept. The Municipal Manager may delegate this to the Directors.

4.1.4 Council delegates or representatives to any conference, workshop or meeting must ensure that they arrive on time and attend until the conclusion of such event.

4.1.5 Any Council funds which were appropriated for the purposes of the subsistence and travel requirements of an individual and which are not fully utilised by that individual MUST be paid back to Council within 48 hours of returning. Failure to adhere to this requirement may result in disciplinary and criminal proceedings being undertaken by Council.

4.2 **Subsistence and travel allowance**

4.2.1 **Purpose**

4.2.1.1 All journeys undertaken must contribute to the Council's business of developing, obtaining or transferring of knowledge or to communicate and promote or administer the Council's interest.

4.2.1.2 The object of a journey is to justify the cost; therefore all journeys and medium of transport must be motivated.

4.2.1.3 Compensation for business journeys is designed to cover the reasonable cost by employees for expenditure incurred as a result of a journey undertook.

4.2.1.4 Journeys must be planned thoroughly in order to complete it in the most efficient and cost effective manner.

4.2.1.5 The bulk of the travelling should be done within the working hours of Council. If not possible, travelling must be cost effective.

4.2.2 **Authorization**

4.2.2.1 All journeys must be authorized beforehand.

4.2.2.2 Only the Municipal Manager or an official with the necessary delegated authority may authorize any travel to be undertaken by Directors outside the Municipal geographical boundaries or payments to be made for persons invited for interviews.

4.2.2.3 Only the Director of the relevant Directorate may authorize any travel to be undertaken by officials in his/her Directorate.

4.2.2.4 Only the Executive Mayor and the Speaker as the case may be, may approve any travelling to be undertaken by the Executive Deputy Mayor and any other Councillor. The Municipal Manager will authorise the expenditure related to the trip;

4.2.2.5 If the Executive Mayor and the Speaker approved their own travel on municipal business, they must inform the Municipal Manager thereof and they must report

to the following Council Meeting on the nature and reasons for such travel and the expenses incurred and funding available.

4.2.2.6 The approval is subject to the provision of funding for expenses incurred on the approved budget of the relevant department/business unit.

4.2.2.7 An invitation to attend a workshop, meeting or related event is not an automatic authorization to attend such workshop or event. Prior required authorization must still be obtained from the Municipal Manager, Executive Mayor or Speaker as the case may be. If any representative fails to do so, or leave the event before its conclusion, the Executive Mayor and Speaker or the Municipal Manager, as the case may be, may recover all allowances and disbursements paid to such delegate or representative to attend such event, provided that such delegate or representative is afforded the opportunity to submit reasons for not getting prior approval and\or not being able to be present from the commencement to conclusion of such event.

4.2.2.8 Councillors will be paid according to the prescribed SALGA Circular.

4.2.2.9 Travelling and subsistence will not be paid in cases where it is being paid for by the host or person who extended the invitation.

4.2.2.10 The Councillors and officials must abide with the report back policy in terms of submission of report when they are attending official business of Council.

4.2.3 **Loss or damage**

4.2.3.1 Loss or damage which includes unauthorized payments or fruitless expenditure caused by Councillors must be brought under the attention of the Executive Mayor and where caused by officials must be brought to the attention of the Municipal Manager for further investigation and action.

4.2.4 **Nature**

4.2.4.1 The following type of expenses may result from performing official duties away from the normal workplace:

4.2.4.1.1 Accommodation: A three or four star hotel or guest house to a maximum amount of **R1000** per night for bed and breakfast accommodation with the exception of the Executive Mayor who may make use of a four star hotel or guest house to a maximum of R**1500** per night for bed and breakfast. This amount will increase annually in line with CPI;

4.2.4.1.2 Meals and non-alcoholic drinks;

4.2.4.1.3 Toll gate fees;

4.2.4.1.4 Official telephone calls & faxes;

4.2.4.1.5 Official transport expenses, such as public transport;

4.2.4.1.6 Washing and ironing of clothes. If away for longer than one week;

4.2.4.1.7 Bank charges payable for the exchange of foreign currency;

4.2.4.1.8 Official parking fees;

4.2.4.1.9 Official car rental;

Proof of expenditure must be provided for each item claimed.

4.2.5 **Personal Recreation**

A subsistence allowance does not cover any personal recreation.

4.2.6 **Compensation**

For the inconvenience of sleeping away from home the traveller will receive an amount of R50 per night.

4.2.7 **Accommodation**:

4.2.7.1 Representatives who travel on the business of the Municipality, where the business unavoidable entails one or more nights to be spent away from home, may stay in a hotel, motel, guesthouse, bed and breakfast establishment or with family and friends.

4.2.7.2 The cost of accommodation will be borne by the Municipality, subject to a maximum **of R1000.00 per night**. Such cost will include the cost of a breakfast. Claims by officials and Councillors exceeding this are subject to proper motivation to the Municipal Manager for authorization.

4.2.7.3 Where such accommodation is available, the rate for a single room will be payable.

4.2.7.4 The payments for overnight accommodation may be paid directly through bookings to the preferred place of accommodation or the Councillor / representative can pay the establishment directly and submit requisition claims for payment of their expenditure upon their return.

4.2.7.5 Where the Councillor or officials stays with a relative or a friend the R750 per night (assumed as bed and breakfast) will be payable without the submission of an invoice.

4.2.7.6 Request for payment of reservation must be submitted at least three days before departure to enable the administration to process the claim. If this is not strictly adhered to, the official or Councillor will have

to pay for the accommodation her/himself and claim the money back from Council.

4.2.7.7 Where an event starts on or before 10h00 on the first day, accommodation can be arranged for the previous night when a delegate has to travel for more than 250 km.

4.2.7.8 Where an event concludes after 16h30, delegates can arrange for overnight accommodation when a delegate has to travel 250km or more to reach his/her place of residence.

4.2.7.9 With reference to paragraph 4.2.7.7 and 4.2.7.8 above, where Councillors and officials are required to attend an event for more than one consecutive day to the same destination within the range of 250km, the cost of accommodation for staying overnight be compared versus the cost of travelling to and through daily be compared and if it is more financially viable for Council to pay the overnight accommodation versus the Councillor or Official travelling to and through daily, the 250km range be waived in this instance and reduced to a range of 65 km.

4.2.7.10 That paragraph 4.2.7.9 only be applicable where a proper motivation for the accommodation as well as a comparison of the cost of the travelling and accommodation have been conducted and same is approved by the Director and Municipal Manager.

4.2.7.11 That paragraph 4.2.7.9 and 4.2.7.10 only be applicable when an official or Councillor is required to attend an event of between two to five consecutive days to the same event and destination and the cost comparison is financially viable to Council.

4.2.8 **Meals**:

4.2.8.1 Above the amount **of R850.00** the traveller may claim a maximum meal allowance of:

R50 for lunch
R100 for supper

If the traveller does not sleep over the night before and leave before 7am they may claim R50 for breakfast. The traveller may claim only for supper if he or she arrives home after 19:00.

4.2.9 Hence the total claimable amount per day will be R950.00 for private stay if the traveller sleeps over plus the amount of R50 for inconvenience.

4.2.10 On the road costs within the Municipal area are not paid.

4.2.11 **Transportation**:

4.2.11.1 Representatives must utilize the most economic means of transport available.

4.2.11.2 Whatever means of transport is used (airplane, motor car, taxi, train, etc.), the cost factor must be calculated in terms of monitory value (Rand and Cent). The following aspects must be taken into consideration.

4.2.11.2.1 Cost of economic class airplane ticket;
4.2.11.2.2 Car rental – set the limit on class;
4.2.11.2.3 Time to reach destination;
4.2.11.2.4 Productivity aspects;
4.2.11.2.5 Cost of private transport;
4.2.11.2.6 Cost of vehicle motor scheme;
4.2.11.2.7 Number of delegation.

4.2.11.3 Private vehicles (officials not participating in motor car scheme) may only be used if authorized by the official's Director in advance, claims will be based on the rates of the **Department of Transport.**

4.2.11.4 Claims for private vehicles will be paid a flat rate calculated at R/per kilometre. The Municipal Manager will determine that rate annually at the beginning of the financial year bearing in mind the average CPI of the preceding year.

4.2.11.5 The distance to which the reimbursement applies, must be the shortest distance between the Municipality's offices or the place of residence of the delegate and the location where the official business is to be transacted.

4.2.11.6 Where possible representatives must travel together, up to four in a vehicle, to minimize travelling expenses.

4.2.12 **Entitlement**

4.2.12.1 All claims submitted must be supported by corroborating documentation.

4.2.12.2 On returning an employee can submit additional invoices which will then be reimbursed after approval.

4.2.12.3 No subsistence allowance will be paid, and no representative will be entitled to a subsistence allowance if the trip or travel is not related to the official business of the Municipality.

4.2.13 **Entertainment of other people**

4.2.13.1 Entertainment of external business associates or contacts or clients or potential investors or potential clients falls outside the scope of the subsistence allowance and will be separately reimbursed (subject to prior approval where applicable).

4.2.13.2 If a representative of the Municipality has an entertainment allowance, this entertainment of external business associates or contacts or other parties must be claimed against the entertainment allowance.

4.2.13.3 A single meal cannot be reimbursed as BOTH entertainment and subsistence. E.g. if entertaining at supper cannot also claim supper allowance.

4.2.14 Car rental

Vehicle may be rented by Councillors and officials who travel on Council business. Up to a “D” or “E” category vehicles may be rented, unless it is more cost-effective to hire a more expensive vehicle (for example, when the number of representatives involved could justify the hire of a micro-bus). Officials and Councillors attending the same event must rationalise on car rental and share cars wherever possible.

4.2.14.1 Car rental must be approved as part of the travel package before the trip is embarked on.

4.2.14.2 A representative who rents a vehicle whilst travelling on the business of the Municipality without having received prior authorization will only be reimbursed for the cost of the vehicle rental if proof of expenditure can be produced and the representative can demonstrate that vehicle rental was reasonably but unexpectedly necessitated by the circumstances.

4.2.15 Insurance

4.2.15.1 **Official transport**:

4.2.15.1.1 Accidents with official transport must be reported to the Municipal Manager and Insurance section immediately and will be investigated.

4.2.15.1.2 Disciplinary action will be based on the ruling of the investigation.

4.2.15.2 **Private transport**:

4.2.15.2.1 Accidents with private transport will be covered by the owner of the vehicle.

4.2.15.2.2 Council is not responsible for any payment thereof.

4.2.16 Transport of private persons

4.2.16.1 The use of official transport to transport private persons is strictly forbidden.

4.2.16.2 Subsistence and travel allowances for persons invited for interviews will be paid by Council.

4.2.17 Traffic fines

The driver of an official vehicle at the time of an offence is responsible for the payment of any fine.

4.2.18 Overseas travel

4.2.18.1 Amount of Subsistence Allowance

- **International Subsistence Allowance**

The amount of subsistence allowance payable to employees embarking on International Travel is limited to the amount laid down by SARS annually for Income Tax exemption purposes.

The prescribed subsistence limits are updated annually on SARS's website.

Subsistence allowances will be paid for each day the employee is away from home while on Municipal business. The number of days to be determined will be from the day and time the employee departs from his\her permanent place of residence and includes the day the employee arrives to his\her permanent place of residence.

Council will cover the health insurance and the life cover of the traveller.

4.2.18.2 **Payment of International Travel Allowance**

The subsistence allowance will be transferred to the employees' bank account prior to the employee embarking on the business trip, provided all necessary procedures were dully followed.

Proof of expenditure or receipts are not required in respect of this allowance.

4.2.18.3 **Tax implications**

The subsistence allowance must be reflected in full on the IRP 5 certificate**.**

Employees Tax is not deducted from the subsistence allowance paid to employees, however, should the subsistence allowance

exceed the limits prescribed by the SA Revenue Service (SARS), the full amount of the subsistence allowance must be included as a taxable subsistence allowance in the employee's IRP5 certificate and may be subject to Income Tax in the employees annual income tax assessment.

The prescribed limits laid down by SA Revenue Services for subsistence allowances which are consequently exempt from tax are:

4.2.18.3 **Accommodation**

Accommodation is limited to the equivalent of a local three star establishment and is deemed to include bed and breakfast. The daily allowance is to be used for all other meals. Officials and Councillors may also claim back for:

4.2.18.3.1 Official telephone calls & faxes set a maximum

4.2.18.3.2 Official transport expenses, such as public transport

4.2.18.3.3 Washing and ironing of clothes. If away for longer than one week.

4.2.18.3.4 Bank charges payable for the exchange of foreign currency

4.2.18.3.5 Official Parking fees

4.2.18.3.6 Official car rental

4.2.18.3.7 Toll gate fees

Proof of these costs must be provided upon return, or an advance may be permitted assuming these costs are known. Should an advance be paid to the traveller, the traveller is responsible for ensuring the reconciliation thereof.

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KNYSNA MUNICIPALITY

KNYSNA
Municipality Munisipaliteit uMasipala

SCARCE SKILLS POLICY

HUMAN RESOURCES POLICES AND PROCEDURES MANUAL

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1. POLICY STATEMENT

The Municipality recognizes that its Human Resources is its most valuable asset. A great deal of time and money is invested in the recruitment, training and development of employees and therefore every effort should be made to recruit and retain staff and especially those with scarce skills.

2. OBJECTIVES

The Scarce Skills Policy aims to:

- identify scarce skills within the Municipality;
- recruitment of individuals with scarce skills;
- retain employees with scarce skills.

3. DEFINITION

Scarce Skills are disciplines and fields of occupations where the Municipality finds it difficult to attract, recruit and retain staff.

4. FUNDAMENTAL PRINCIPLES

The Scarce Skills Policy is based on the following fundamental principles –

- to identify fields or disciplines of fields where the Municipality finds it difficult to attract, recruit and retain staff;
- the Municipality must experience difficulty in attracting and retaining critical expertise in certain fields\jobs due to the limitations set by the collective agreements on wages, salaries, job evaluation and the categorization of municipalities;
- the Scarce Skills Policy and its implementation must be fundamentally aimed at identifying those critical skills shortages, attracting individuals who have the skills required and retaining those individuals once appointed; and
- it is the responsibility of the Municipality to develop and retain especially those employees who have skills that are scarce and in high demand.

5. **IDENTIFYING SCARCE SKILLS**

It is the responsibility of Directors to identify certain posts and/or occupational categories affected by scarce skills challenge, using any or all of the following criteria:

5.1 the turnover rate of employees in a particular occupation must be significantly above the turnover experienced in the Municipality;
5.2 the inability of the departments to meet the demands of the tasks or the technical requirements defined by the tasks;
5.3 the duration of the skills shortfall that cannot be accommodated from within departmental staff;
5.4 high vacancy rate;
5.5 the demand for particular skills exceeds the supply;
5.6 there must be a shortfall for the identified skill in the local, provincial and national government market;
5.7 vacancies in the identified field or occupational category should be proven to be difficult to fill;
5.8 the skills must require an advanced knowledge in a field, science or discipline obtained through formal studies and\or specialized instruction and\or years of service or experience;
5.9 the skills\ knowledge\experience must be critical to a specific project and\or service; and
5.10 reasons\factors given by employees with scarce skills for leaving the service of the Municipality.

6. **REWARD STRATEGY FOR ATTRACTING AND RETAINING INDIVIDUALS WITH SCARCE SKILLS**

6.1 Directors requesting a scarcity allowance to be paid for an occupational group and\or specific post must submit, bearing *inter alia* paragraph 4 above in mind, a motivation to the Manager Human Resources and the Municipal Manager for approval.

6.2 The scarcity allowance must be re-evaluated on a bi-annual basis to allow for adjustments, based on changing trends and to confirm whether the posts and\or occupational groups originally affected by a scarce skills challenge remain scarce.

6.3 Should a skill no longer be identified as scarce by the Municipal Manager, the allowance will be no longer be applicable to any new appointments in that occupational group or field.

7. **PAYMENT OF SCARCITY ALLOWANCE**

7.1 A (non-pensionable) scarcity allowance calculated at the following % of an employee's annual basic salary, may be payable:

15%, 20%, 25% to a maximum of 30%.

7.2 The allowance mentioned in 7.1 must allow for both the possession of skills and the extent of the utilization of the skills in the general performance of duties.

7.3 A candidate who is in possession of additional superior qualifications, which makes such a candidate suitable for succession planning, may also be paid an allowance in order to ensure retention within the Municipality.

8. PAYMENT OF A HIGHER SALARY WITHIN A RANGE

8.1 Candidates may, in addition to paragraph 7, be offered a commencing salary between the minimum and high point pay range of a specific post.
8.2 The range mentioned in 8.1 above must be approved by the Municipal Manager.
8.3 The Municipal Manager must, in considering a recommendation in 8.2 above, take into account a candidate's experience, knowledge, competence and the scarcity of the skill such a candidate possesses.

9. STAFF RETENTION CRITERIA AND PROCEDURES

In an effort to retain highly qualified and skilled employees any or all of the following criteria and responsibilities should apply when considering targeted allowances:

9.1 the employee must receive a *bona fide* offer of employment from another employer, which offer must be in writing and includes details of the salary/remuneration offered to the employee, subject thereto that the Director recommending the retention must verify the offer and provide a concise written justification along with a copy of the offer letter;
9.2 the employee must, over and above the required qualifications, be in possession of additional superior qualifications making such an incumbent suitable for succession planning;
9.3 the recommendation must be detailed and must be in line with budgetary constraints and any other implications the recommendation could have on the department and the municipality in general; and
9.4 the motivation in 9.1 must be submitted to the Municipal Manager for final approval;
9.5 any counter offers made to the employee and which amend his\her current employment contract must be confirmed in writing and be duly accepted by the employee.

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KNYSNA MUNICIPALITY

KNYSNA
Municipality Munisipaliteit uMasipala

VACANCY POLICY

HUMAN RESOURCES POLICES AND PROCEDURES MANUAL

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1. **POLICY STATEMENT**

The Municipality strives to deliver optimum service delivery at all times. The Municipality recognizes that its Human Resources is its most valuable asset and a great deal of time and money is invested in the recruitment and selection of suitable candidates to deliver the required services and to maintain the desired level of service delivery. Therefore every effort should be made to fill vacancies as soon as possible and to recruit the most suitable candidates to maintain the desired level of service delivery.

2. **OBJECTIVES**

The Vacancy Policy aims to:

- create a process where vacancies can be filled within the soonest possible timeframe;
- keep Knysna Municipality's vacancy rate below 15% for funded vacancies at all times;
- retain the minimum percentage of critical positions vacant;
- create an environment which allows for all funded vacancies to be filled within 120 days from becoming vacant.

3. **DEFINITION**

A vacant position is a position which becomes vacant due to a resignation, retirement, ill health retirement or death of an occupant of a funded position on the approved organizational structure.

4. **FUNDAMENTAL PRINCIPLES**

The Vacancy Policy is based on the following fundamental principles:

- To be able to fill a vacant position, the position must:
    - exist on the approved organizational structure;
    - be fully budgeted for in the approved budget applicable to that financial year.

5. **PROCEDURE OF FILLING VACANCIES**

5.1 Once a funded position becomes vacant and identified to be filled by the Director, the Director must inform the Manager Human Resources at soonest.

5.2 The Human Resources Department will then verify whether the vacancy exists on the approved organizational structure as well as verify whether the position is a funded vacancy with sufficient funding within the current approved budget applicable to that financial year.

5.3 The Human Resources Department will then verify the Key Performance Areas of the vacancy against an evaluated job description.

5.4 The Human Resources Department will then assist the Director or Line Department Manager with the drafting and advertising of the vacancy for final approval by the Municipal Manager.

5.5 Following step 5.4 above, the Human Resources Department will assist the Director or Line Department Manager to fill the vacancy following the processes of recruitment, selection and appointment as stipulated in Knysna Municipality's approved Recruitment and Selection Policy.

6. FILLING OF UNFUNDED VACANCIES

In the instance where an urgent need arises for the filling of an unfunded vacancy the following principles must prevail:

- the vacancy must exist on the approved organogram marked as an unfunded vacancy;
- the Line department must submit a full motivation to the Municipal Manager and the Chief Financial Officer requesting permission to fill the vacancy;
- the funding to fill the unfunded vacancy within the current financial year must be sourced through the Adjustment Budget;
- where the filling of an unfunded vacancy is extremely urgent, a line department may exchange the funding of an existing funded vacancy which has become redundant, to fill a critical unfunded vacancy.

7. FILLING OF VACANCIES FOR SECTION 56 & SECTION 57 POSITIONS

Filling of vacancies which occur for Section 56 & Section 57 positions are regulated by the Municipal Systems Act, Act 32 of 2000 as well as Government Gazette No. 37245, Local Government Regulations on Appointment and conditions of employment of Senior Managers.

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